

# U.S. Customs Service



A m e r i c a ' s   F r o n t l i n e



**Annual Report  
Fiscal Year 2001**

# I n R e m e m b r a n c e



U.S. Customhouse  
6 World Trade Center

September 11, 2001

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This Annual Report covers Federal Fiscal Year (FY) 2001 (October 1, 2000, through September 30, 2001) with discussion of some subsequent events.

This report highlights Customs mission accomplishments, presents financial management information, and represents an on-going effort to streamline statutory reporting requirements while providing useful information to internal and external customers. Customs financial statements provide the financial position and results of Customs operations, pursuant to the requirements of 31 U.S.C.

While the statements have been prepared from Customs books and records in accordance with the formats prescribed by the Office of Management and Budget (OMB), the statements are supplemental to

the financial reports used to monitor and control budgetary resources prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government. One implication of this is that unfunded liabilities cannot be liquidated without legislation that provides the resources for that purpose.

Information about Customs programs are available through the Internet on Customs Home Page at <http://www.customs.treas.gov>. The Customs Home Page is updated on an on-going basis with current information relating to the Customs mission, and our programs and initiatives designed to carry it out.

Photos by James R. Tourtellotte

## FROM THE COMMISSIONER

On September 24, 2001, I was privileged to be sworn in as the Commissioner of the United States Customs Service (Customs).

At that time, our nation was engaged in the first stages of the response to the terrorist attacks of September 11<sup>th</sup> in New York and Washington, D.C. As the guardian of our nation's borders, "America's Frontline," Customs quickly assumed a leading role in that effort.

Since that day, the battle against international terrorism has been the top priority of our agency, and it will remain our top priority for the foreseeable future. At the same time, I am firmly committed to upholding the traditional, core aspects of Customs mission to serve and protect our nation. In focusing our efforts against global terrorism, we will not lose sight of our longstanding responsibilities to protect and facilitate the nation's trade, defend America from the scourge of illegal drugs, and safeguard our country from sophisticated new criminal threats.

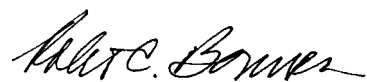
As this FY 2001 Annual Report shows, Customs was vigorously addressing these challenges both prior to and after the attacks of September 11<sup>th</sup>.

On the interdiction front, Customs claimed another record year of illegal drug seizures in FY 2001. Overall quantities of cocaine, heroin, and marijuana seized increased by approximately 18 percent compared to FY 2000 levels. Customs also seized 7.2 million tablets of Ecstasy, thereby continuing the agency's leading role in countering the threat of synthetic drugs to our country. While anti-terrorism is now the number one priority for Customs, the overall increase in drug seizure numbers demonstrates the skill and determination of our officers in interdicting all types of contraband.

Meanwhile, trade entries – the number of individual commercial transactions processed by Customs – increased from 23.5 million entries in FY 2000 to 23.7 million in FY 2001. This continues a rising trend in our commercial workload. In the last five years alone, Customs has witnessed a 48 percent increase in the number of trade entries processed, from 16 million to the FY 2001 figure of 23.7 million entries.

Balancing this expanding workload with the increased threats to our national security presents a daunting challenge. In addition to protecting America from terrorism, Customs will remain at the forefront in deterring traditional and emerging criminal threats, including international drug smuggling, the violation of intellectual property rights, Internet child pornography, global money laundering, and the illegal export of strategic weapons and technology. We are resolved to meet each of these challenges through the right combination of personnel, technology, and resources necessary to safeguard America and its economy well into the future.

If the past is any indication, Customs will meet and exceed these expectations. Customs has delivered outstanding results for the American people in terms of organizational management, accountability, and mission performance. I pledge to build upon that record, and to enhance the reputation for excellence that is the hallmark of America's oldest law enforcement agency.



## MESSAGE FROM THE ACTING CHIEF FINANCIAL OFFICER

On January 4, 2002, I assumed the position of Acting Chief Financial Officer (CFO) for Customs following the retirement of Mr. C. Wayne Hamilton, who served as Customs CFO with dedication and integrity. His service to the Federal government spanned over 38 years and his leadership and talent will be greatly missed.

This FY 2001 Annual Report reflects Customs continuing commitment to sound management. It delineates actions taken to improve Customs operations and accountability by mitigating Financial Managers' Financial Integrity Act (FMFIA) weaknesses, addresses several formidable challenges facing Customs, exacerbated by the September 11<sup>th</sup> attacks, the solutions of which continue to involve significant resource investments, and highlights the initial phases of our modernization efforts.

The Treasury Office of Inspector General did not perform an audit of Customs FY 2001 financial statements. Prior to this, Customs has had an audit performed for eight consecutive years. The Treasury Department requested a waiver from the Office of Management and Budget to release Customs from an audit requirement, which was granted for FY 2001 in part due to Customs excellent record of six consecutive unqualified audit opinions.

To begin the fiscal year, Customs received an initial \$130 million appropriation to kick-off the over \$1 billion effort to modernize its automated systems. This initial funding, coupled with an innovative presentation based procurement, allowed us to award a multi-year contract to the e-Customs Partnership in only four months and without protests. The initial focus of our modernization effort is on the development of the first two modules of the Automated Commercial Environment (ACE) system. When fully implemented ACE will replace our current automated commercial system, which has been operational since 1984.

Our modernization efforts, combined with SAP/R3 (integrated financial management software) will help to resolve one of Customs FMFIA weaknesses. As modernization progresses we will be able to address Customs core financial systems weakness related to needed improvements in systems integration, financial information, and statement preparation. In addition, Customs has contracted for the establishment of a back-up mechanism for our automated systems. When implemented, this will help to correct another outstanding FMFIA weakness.

The Office of Finance (OF), with support from the Office of Information and Technology (OIT), also initiated a non-information technology (IT) investment management program. Under this effort, all major capital acquisitions will eventually go through a cost benefit/effectiveness screening. OF continued its strong support of Customs operations by completing a facilities renovation and replacement review of 197 northern and southern border ports. We also awarded a new 10-year seized real property contract, based on a gain-sharing methodology. Customs also received a Treasury award for the best managed Small Business Program and the prestigious General Services Administration sponsored Interagency Resources Management Conference (IRMCO) 2001 Award for Team Achievement for its innovative handling of the modernization contract.

I have discussed how Customs has met many challenges this year, but none of these efforts was more demanding than responding to the loss of our facilities in the 6 World Trade Center (WTC) building on September 11<sup>th</sup>. Fortunately, not one Customs employee's life was lost at the WTC, and due to the tireless efforts of Customs men and women, we were able to bring our commercial and enforcement operations in New York on-line in a matter of days. This is indicative of the dedication and teamwork that is the hallmark of all Customs employees.







# **MANAGEMENT DISCUSSION AND ANALYSIS**

## Customs at a Glance

### *Mission:*

**We are the guardians of our Nation's borders - America's Frontline.**

**We serve and protect the American public with integrity, innovation, and pride.**

**We enforce the laws of the United States, safeguard the revenue, and foster lawful international trade and travel.**

### *Customs Core Values*

**Reflecting the dedication and professionalism of a diverse workforce, these core values represent the tradition, service, and honor that Customs is based on:**

**Integrity:** Knowing right from wrong and acting in a way that brings honor upon Customs.

**Accountability:** Assess our actions and take responsibility for those actions.

**Fairness:** Act with civility and impartiality to all with actions and decisions which are balanced, bias-free, and sensible.

**Service:** Perform our duties in a competent, professional, courteous manner.

**Pride:** Believe in our mission, be proud of our tradition of service, and exert the extra effort.

### *Vital Statistics:*

**19,496 Customs employees**

**300 plus ports of entry**

**23.7 million trade entries processed**

**\$23.8 billion in total collections**

**1.7 million pounds of narcotics Customs seized or assisted in seizing**

**7.2 million tablets of Ecstasy seizures**

**472 million pedestrians and passengers processed**

**142.5 million conveyances processed**



**Inspectors processing aircraft cargo.**

## Customs Mission On America's Frontline

**Protecting the general welfare  
and security of the United States  
by enforcing import and export  
restrictions and prohibitions**



**Processing persons,  
baggage, cargo and mail**



**Detecting and apprehending persons  
engaged in fraudulent practices  
designed to circumvent Customs  
and related laws**





**Assessing and collecting  
Customs duties, excise taxes,  
fees and penalties due on  
imported merchandise**



**Collecting accurate  
import and export  
data for compilation  
of international trade  
statistics**



**Protecting American intellectual  
property rights and preventing  
illegal trade practices**



**Interdicting and seizing  
contraband, including  
narcotics and illegal drugs**

## A HISTORY OF TRADITION, SERVICE, AND HONOR

After declaring its independence in 1776, the United States found itself on the brink of bankruptcy. Responding to the urgent need for revenue, the First Congress passed and President George Washington signed the Tariff Act of July 4, 1789, which authorized the collection of duties on imported goods. It was called “the second Declaration of Independence” by the news media of that era. Four weeks later, on July 31, the fifth act of Congress established Customs and its ports of entry.



For nearly 125 years, Customs funded virtually the entire government, and paid for the nation’s early growth and infrastructure. The territories of Louisiana, Oregon, Florida and Alaska were purchased; the National Road from Cumberland, Maryland, to Wheeling, West Virginia, was constructed; and the Transcontinental Railroad stretched from sea-to-sea. Customs collections built the nation’s lighthouses; the U.S. military and naval academies; the City of Washington and the list goes on. The new nation that once teetered on the edge of bankruptcy was now solvent. By 1835, Customs revenues alone had reduced the national debt to zero.

Today, Customs is still a major source of revenue for the Federal Government, returning about \$8 to the taxpayer for every dollar appropriated by Congress. Customs was the parent or forerunner to many other agencies. In the early days, Customs officers administered

military pensions (Department of Veterans Affairs); collected import and export statistics (Bureau of Census); and supervised revenue cutters (U.S. Coast Guard). Customs also collected hospital dues to help sick and disabled seamen (Public Health Service); and established standard weights and measures (National Bureau of Standards).

Customs ensures that all imports and exports comply with U.S. laws and regulations. The Service collects and protects the revenue, guards against smuggling, and is responsible for the following:

- ◆ Assessing and collecting Customs duties, excise taxes, fees, and penalties due on imported merchandise.
- ◆ Interdicting and seizing contraband, including narcotics and illegal drugs.
- ◆ Processing persons, baggage, cargo and mail, and administering certain navigation laws.
- ◆ Detecting and apprehending persons engaged in fraudulent practices designed to circumvent Customs and related laws.
- ◆ Protecting American business and labor and intellectual property rights by enforcing U.S. laws intended to prevent illegal trade practices, including provisions related to quotas and the marking of imported merchandise; the Anti-Dumping Act; and, by providing Customs Recordations for copyrights, patents, and trademarks.
- ◆ Protecting the general welfare and security of the United States by enforcing import and export restrictions and prohibitions, including the export of critical technology used to develop weapons of mass destruction, and money laundering.
- ◆ Collecting accurate import and export data for compilation of international trade statistics.

Today, in addition to its own laws, Customs enforces well over 400 other provisions of law for at least 40 agencies. A number of these statutes are quality of life issues that relate to the

environment, such as motor vehicle safety and emission controls, water pollution standards, pesticide controls, freon smuggling, and the protection of endangered wildlife. Other laws safeguard American agriculture, business and public health, and consumer safety.

## CUSTOMS STRATEGIC GOALS FOR FISCAL YEARS 2000-2005

**Trade and Economic Growth:** Stimulate and protect the economic interests of the United States by maintaining a sound trade management system that maximizes compliance with import and export laws.

**Border Security:** Secure our borders while facilitating the expeditious movement of international travel and commerce.

**Narcotics Trafficking:** Dramatically reduce the availability and flow of drugs into the United States.

**Criminal Finance:** Strengthen domestic and international efforts to disrupt the flow of illegal money derived from global criminal activity.

**Public Protection:** Contribute to a safer America by reducing civil and criminal violations associated with the enforcement of Customs laws.

**Management Accountability:** Build a strong and effective management support structure that assures the achievement of business results.

## MAJOR CHALLENGES ON AMERICA'S FRONTLINE

Customs faces many significant risk factors and obstacles, many of which are beyond Customs control. To anticipate the consequences of these risks, and to deal with obstacles to mission accomplishment in a strategic fashion, remains a formidable challenge. The terrorist attacks on American citizens and facilities during FY 2001 posed a new set of tests and trials for Customs ability to adapt to changing conditions. The process of adopting appropriate strategies and action plans to deal with new threats is underway and will continue into the foreseeable future. The following significant challenges currently confront Customs organization and workforce:

- ◆ Reducing the amount of illegal drugs entering the United States by identifying, disrupting, and dismantling drug smuggling organizations and through efficient and effective utilization of air and marine interdiction resources.
- ◆ Protecting the economic interests of the United States by facilitating the legitimate flow of commerce and travelers, fostering trade compliance with import and export laws, and stopping predatory and unfair trade practices that threaten our economic stability and market competitiveness.
- ◆ Combating crime by disrupting the flow of illegal money derived from illegal international activity, stopping illicit trade in cultural and intellectual property, and preventing the export of stolen property.
- ◆ Promoting public health and safety by reducing importation of potentially harmful, hazardous, or otherwise illegal commodities, and by preventing illegal export of munitions and weapons of mass destruction.



**Customs employees:**  
*Carrying Out Our Mission,  
Protecting Our Borders.*



Interdiction efforts include coordinated air and marine operations.

- ◆ Being a leader in the deployment of technology and automation to accomplish mission-critical agency functions.
- ◆ Aggressively pursuing policies which lead to the hiring, training, and retention of qualified employees in a highly competitive marketplace.

## RISK MANAGEMENT

The magnitude and complexity of the challenges facing Customs in accomplishing its mission place a premium on utilizing strategies that maximize results with scarce resources. Customs staff and resources are only capable of physically examining a very small percentage of the goods and passengers entering the United States. In this situation, protecting the United States and its citizens from potential danger or harm becomes a question of how effectively the risks associated with processing this workload are managed. That is, Customs must determine how to pinpoint and prioritize the risks present in the flow of goods and people into the country, while at the same time allowing legitimate commerce and compliant travelers to enter the country unimpeded.

To identify, analyze, and manage those risks, Customs has developed a structured approach that involves a disciplined process of using data and information to increase our probability of success in impeding instances of noncompliance with laws and regulations. This process is an iterative one of collecting data and information, analyzing and assessing risks, prescribing action, and tracking and reporting results that are fed back into the process.

Examples of successful applications of this methodology are numerous. For instance, at one of Customs ports, resources assigned to trade teams working on Primary Focus Industries (PFI) were reallocated to properly balance their workloads. This action produced improvements in the port's ability to address risks present in each PFI. Another example includes the application of risk management in the passenger area of personal searches, resulting in significant improvements in efficiencies related to positive searches. Designed to result in a continuous improvement in risk management capabilities, this new approach to addressing risk permits Customs to operate more efficiently as well as effectively.

## AMERICA'S FRONTLINE ORGANIZATION

Customs is a diverse group of men and women at Headquarters and in the field dedicated to carrying out Customs mission as America's Frontline.

### Headquarters

Customs FY 2001 organizational chart shows the composition of Headquarters consisting of the Office of the Commissioner and related staff offices, as well as the Office of Chief Counsel and the Office of Internal Affairs, seven functional offices and four crosscutting support Offices each headed by an Assistant Commissioner. These offices provide effective leadership and support to Customs field personnel while maintaining their roles as advisors and policymakers in support of the Commissioner and Customs mission.

## Customs Management Centers (CMCs)

The 20 CMCs located throughout the United States are responsible for oversight of operations within their area of jurisdiction and exercise line authority over the ports of entry. They provide technical and operational assistance and participate in addressing the day-to-day issues at the ports located within their authority. CMCs coordinate with their Office of Investigations counterparts, Special Agent-in-Charge (SAIC) offices, in executing antismuggling and enforcement strategies.

## Ports of Entry

Ports of entry are responsible for processing conveyances, passengers, and all goods entering and exiting the United States. In addition to enforcing Customs laws, these offices enforce over 400 laws for 40 other agencies involved in international commerce. Ports of entry are under the jurisdiction of CMCs. For a more detailed listing of ports of entry by state, refer to the map on the next page.

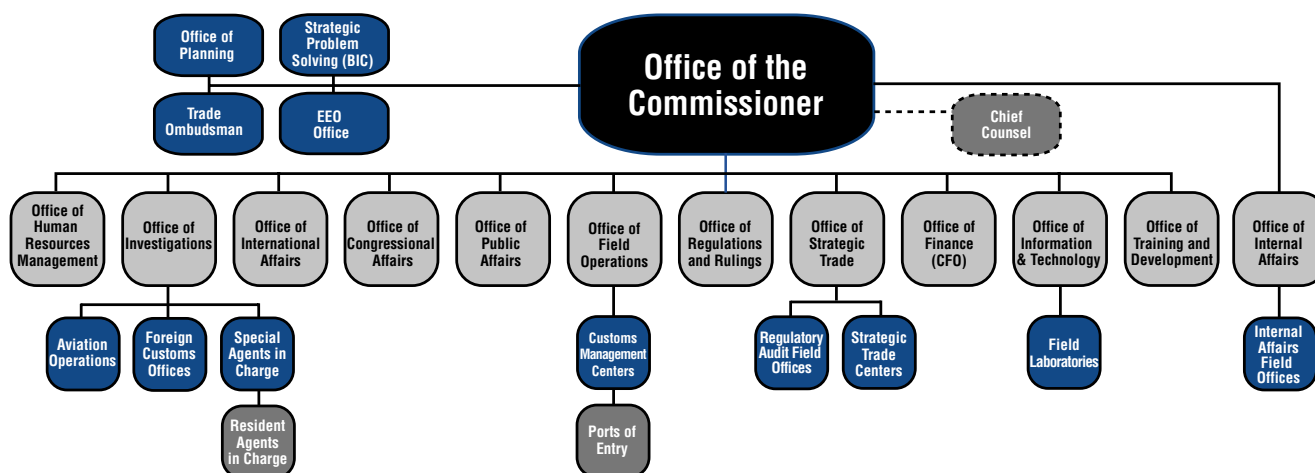
## Strategic Trade Centers

Customs has five Strategic Trade Centers (STCs) that are located in the following areas: Los Angeles, CA; Dallas, TX; Fort Lauderdale, FL; Chicago, IL; and New York, NY. STCs are primarily responsible for monitoring trade compliance with PFIs and quantitative analysis of previous and ongoing compliance.

## Investigations Field Offices

The SAIC offices are responsible for the administration and management of all enforcement activities within the geographic boundaries of their jurisdiction. The SAICs develop, coordinate, and implement enforcement strategies to ensure conformance with national policies and procedures and support national intelligence programs. Each SAIC office is responsible for any subordinate field offices which support the enforcement mission of the SAIC office. These subordinate field offices, Resident Agent in Charge (RAIC) and Resident Agent offices, are responsible for managing enforcement activities within their geographic boundaries.

### U.S. Customs Service as of September 30, 2001



Customs Blackhawk helicopter  
is an effective tool against  
smugglers.



## Map of U.S. Customs Service





## Planning

Customs has steadily improved its planning and management processes consistent with the Government Performance and Results Act. Customs aligns its organizational and program structure with the requirements of the Agency's customers and stakeholders, and integrates its strategic planning, budgeting, and performance measure activities. Customs has developed statements of its mission and fundamental challenges (previously described) based on its programs and activities. These provide a foundation for Customs goals and objectives.

Customs mission, goals and objectives are a product of close collaboration with customers, the Department of the Treasury, other agencies which carry out related programs, and stakeholders in the Administration and Congress. These goals and objectives are supported by the Customs budget.

Progress toward the achievement of Customs goals and objectives is described in our Management Discussion and Analysis sections. These sections provide the Agency's detailed performance goals and accomplishments for each goal area.

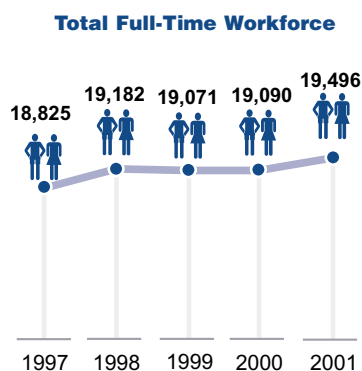
Details of our planning process are available in Customs Strategic Plan at Customs website (<http://www.customs.gov/about/strat/plans.htm>).

## CUSTOMS BUDGET – TRENDS & IMPACTS

Because of Customs diverse mission, it is a constant challenge to address the multifaceted responsibilities that help to ensure Customs meets its greatest challenges: terrorism, and stopping the inflow of drugs, as well as the inflow and outflow of other illegal contraband. The impact on Customs workload by factors beyond its control is tremendous. Continuing external factors associated with trade growth, smuggling patterns, global threats, and technological change will challenge aging automated systems and law enforcement efforts. Increases in the Customs annual budget for several years were minimal and staffing also remained relatively static. Customs now anticipates new resources for the fight against terrorism; however the struggle to achieve competing goals within available resources will continue.

Salary and expenses (S&E) appropriations that fund Customs efforts are divided into two budget activities: "Commercial" and "Drug and Other Enforcement." Commercial activities are defined as those occurring prior to a violation being confirmed or acceptance of a referral for investigation. These activities include intelligence gathering, targeting, analysis, and examination activities. Drug and Other Enforcement activities occur after confirmation of a violation or acceptance of a referral for investigation, and include drug, money laundering, and other investigative activities.

Customs recognizes that some enforcement areas, such as narcotics smuggling and international money laundering strategies, may involve more than one strategic goal function. Customs has organized its activities to address the detection, investigation, and resolution of violations of U.S. law related to these cross-functional issues.



## HOW CUSTOMS USES ITS BUDGETARY RESOURCES

In accomplishing its mission and in carrying out program activities, Customs spends the greatest part of its appropriated resources on S&E categories. Reimbursable S&E account for approximately 14 percent of the annual budget. Operations and Maintenance of Customs Air and Marine Assets represent the third largest category at approximately 7 percent of Customs resource obligations. Added in FY 2001 is the Customs Automation Modernization Program, a major information technology effort Customs has embarked upon to plan for and acquire the core trade and financial management systems and infrastructure needed to keep pace with the tremendous growth in trade and enforcement needs. This program accounted for approximately 5 percent of resources.

### Actual Fiscal Year Budget Resource Obligations

(in millions)

	1997	1998	1999	2000	2001
<b>Salaries and Expenses Direct (includes obligations authorized under COBRA)</b>	\$1806	\$1881	\$2067	\$2041	\$2158
Salaries and Expenses Reimbursable	391	439	462	542	451
Automation Modernization	—	—	—	—	161
Puerto Rico Refunds, Transfers, Expenses	115	110	106	96	86
Operations and Maintenance	113	169	195	177	214
Facilities	2	2	2	2	8
Small Airports <sup>*</sup>	3	3	3	3	3
Crime Bill	10	55	21	65	35
Refunds, Transfers	7	8	7	5	7
Harbor Maintenance Fee	3	3	3	3	3
<b>Totals</b>	<b>\$2,450</b>	<b>\$2,670</b>	<b>\$2,866</b>	<b>\$2,934</b>	<b>\$3,126</b>



**Customs Citations tracking illegal  
drug movements.**



## BORDER SECURITY

**Goal:** The border security strategic goal is to secure our borders while facilitating the expeditious movement of lawful international travel and commerce.

### OVERVIEW

Customs has the responsibility to ensure that travelers entering the United States do so in compliance with federal laws and regulations. Our objectives in support of the border security strategic goal are:

- ◆ Select high-risk travelers in advance of arrival.
- ◆ Deploy selectivity techniques, technology, and tools for the physical inspection of travelers' baggage and vehicles in order to mitigate potentially high-risk and destructive situations.
- ◆ Intercept high-risk travelers while expediting low-risk travelers.
- ◆ Increase travelers' awareness of Customs requirements and mission in order to achieve voluntary compliance.

### CHALLENGES

Customs is faced with two major obstacles to achieving our goal and objectives in border security. These obstacles are rapidly increasing and diversifying workloads and static resources. By the year 2009, passenger enplanements are expected to double. While an increase in staffing has been approved by Congress, staffing levels will remain relatively static for the immediate future as the hiring and vetting process commences.

Threats of illegal immigration and drug smuggling will constitute a significant aspect of increasing workloads. The threat of terrorist attacks and the threat of weapons of mass destruction to national and world security pose additional burdens for Customs as it attempts to secure U.S. borders. Customs will need to adapt to a much changed future environment in carrying out its mission.

One helpful strategy in achieving the strategic goal and accomplishing border security objectives is the application of risk management principles. Risk management allows Customs to use its limited passenger processing resources in the most effective way, targeting and identifying travelers who are of highest risk for significant violations, while permitting compliant travelers to move expeditiously through our borders. This technique also permits Customs to deploy the right technology and resources to the identified appropriate locations in a timely manner. By employing the risk management methodology, Customs has demonstrated that it can substantially increase the efficiency of detecting violations.

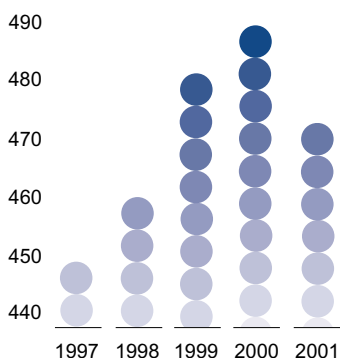
### TRENDS AND MEASURED RESULTS

In FY 2001, Customs processed 472 million pedestrians and passengers. Of these arriving persons, 65.9 million (plus 13.4 million cleared outside the United States) arrived via commercial airlines, 11 million arrived by ship, 306.8 million arrived by automobile, and 53 million crossed our borders as pedestrians. The balance of arriving persons used trains, buses, and private and corporate aircraft as modes of transportation. Processed conveyances, such as passenger vehicles, trucks, private and commercial aircraft, and small boats and vessels, amounted to 142.5 million.

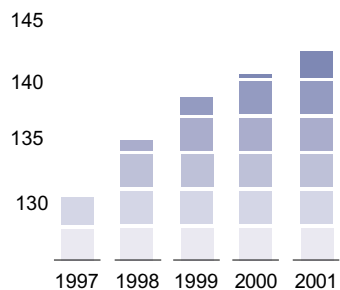


Border crossing at San Ysidro, California.

Land, Air, and Sea Passengers  
(in millions)



Conveyances (in millions)





Passenger volume for air, land, and sea saw a drop in September of FY 2001, impacting total passenger numbers for the year. Due to both public reaction and national security measures put in place following the tragic events of September 11<sup>th</sup>, including the temporary suspension of both private and commercial air traffic, total passenger volume for FY 2001 actually declined from that of FY 2000.

## ANALYSIS OF PERFORMANCE

Customs overall border security goal is measured via a compliance rate for travelers. Compliance means acting in accordance with federal laws and regulations governing the entry of persons and accompanying goods and vehicles into the country. Our planned long-term compliance rate goal is 99 percent, which we strive to obtain through informed compliance, refinement of targeting methods, and intercepting and examining high-risk travelers, while expediting low-risk travelers.

### Develop and refine methods to select high-risk passengers in advance of arrival (Target these passengers).

In its Frontline role for maintaining border security, Customs has undertaken a variety of initiatives to obtain traveler information prior to the arrival of the aircraft or vessel. One of the most critical of these initiatives is the Advanced Passenger Information System (APIS), a joint operation between Customs and the air transport community designed to meet enforcement responsibilities and facilitation goals. Under APIS, air carriers are required to provide advance basic information on air passengers arriving in the United States. Customs aggressively pursued a high level of participation by air transporters in this initiative, and in FY 2001 exceeded our goal of 82 percent carrier participation. Underscoring the critical importance of this program to Customs enforcement and targeting efforts, in November of 2001, as a direct result of the September 11<sup>th</sup> attacks that employed hijacked airliners, the President signed into law aviation security legislation mandating 100 percent international carrier participation in APIS.

**Goal:** Increase air carriers' participation in APIS to 82 percent in FY 2001.

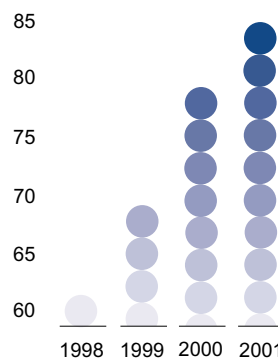
**Measured Results:** In FY 2001, Customs exceeded that goal by reaching a carrier participation rate of 85 percent.

### Physical inspection of passengers, baggage, and vehicles for the purpose of determining compliance with laws and regulations (Examine).

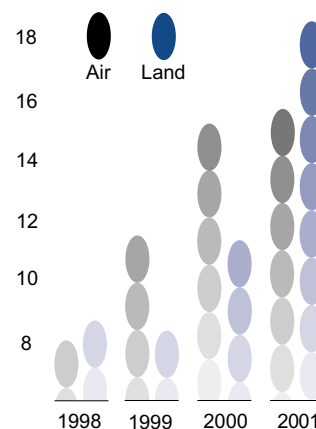
Customs measures the effectiveness of its selection process by conducting a measurement program called Compliance Measurement Examination (COMPEX). COMPEX is a statistically valid measurement that compares violations found during targeted enforcement exams with violations discovered during examinations of random samples of passengers. This comparison provides a measure of how well our selection programs are achieving the Customs objective of effective targeting.

**Goal:** The COMPEX targeting rate should be better than the random targeting rate by multiples of 9.0 for air and 10.8 for land during FY 2001.

**APIS Participation Rate**  
(percentage)



**COMPEX Effectiveness Ratio**  
(Times better than random)





**Customs K-9 officer and his co-worker search for contraband.**

**Measured Results:** For FY 2001, the air COMPEX rate was 15.7 times better than random targeting. In the land environment for passenger vehicle processing, the COMPEX targeting effectiveness rate was 18.3 times better than random targeting.

Compliant travelers should not have to spend excessive amounts of time in secondary examination, unless there are specific reasons to do so. Customs has established the following set of processing standards for Customs inspectors:

- ◆ Process 95 percent of arriving air passengers within 5 minutes from the time they retrieve checked baggage to their exit from the inspection facility.
- ◆ Process 95 percent of arriving compliant air passengers referred to secondary inspection within 20 minutes.
- ◆ Process arriving compliant land passengers within 20 minutes (except on weekends, holidays, and peak traffic times).

Customs inspectors have met the above standards on a consistent basis according to internal survey data.

### Personal Search Results

The following figures show the trends in total cocaine, heroin, and ecstasy seizures associated with arriving air, land, and sea travelers:

Type	FY 1999	FY 2000	FY 2001
Cocaine	1,226	1,204	1,319
Heroin	517	577	626
Ecstasy	112	206	303

Although the number of personal searches has greatly decreased, Customs officers continue to increase their effectiveness in the detection of narcotics. The following is a comparison of seizure activity for several fiscal years for the number of seizures of cocaine, heroin, and ecstasy resulting from personal searches only in the air, land, and sea environments:

Number of seizures of cocaine, heroin, and ecstasy resulting from personal searches in the air, land, and sea environments:

FY 1999	FY 2000	FY 2001
800	908	1,190

In regard to personal searches, Customs has established the following goals for FY 2002:

- ◆ Improve the ratio of positive personal searches by 30 percent.
- ◆ Achieve a positive personal search rate of 23.14 percent for air and 10.4 percent for land. (Actual FY 2001 results for this goal were 18.1 percent for air and 8.8 percent for land.)

## **Intercept high-risk passengers while facilitating the processing of low-risk passengers (Intercept and expedite).**

Customs is tightening border security at our land border ports of entry, with particular emphasis on the Northern Border with Canada. The hardening of the Northern Border is a direct result of the September 11, 2001, terrorist attacks. Major improvements in this area of border security are predicated on technological innovation to allow critical resources to be dedicated to high-risk activities and areas:

### ***License Plate Reader Program***

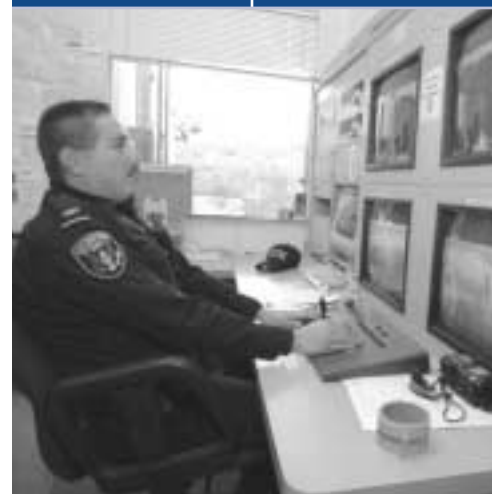
One piece of technology deployed is the License Plate Reader (LPR), a joint initiative of Customs and the Immigration and Naturalization Service (INS). A LPR is a computer-based video system that captures images of vehicle license plates (front and rear), digitizes and interprets the images, and transmits the license plate data directly to enforcement systems. This technology enhances safety, enforcement, and facilitation by improving data input quality and by eliminating both the need for inspectors to keystroke license plate data into enforcement systems as well as the recurring need for inspectors to walk to the rear of arriving vehicles to view rear plates. At this time, 281 LPR systems have been installed and are operating at ports in Arizona, California, Georgia, Maine, Minnesota, New Mexico, New York, Texas and Washington. Customs plans to have a total of 374 LPRs installed and operational by September 2003.

### ***NEXUS Program***

In 1995, the U.S. President and Canadian Prime Minister signed the Shared Border Accord (SBA). The Accord's intention was to promote trade, tourism, and the movement of people and goods between the United States and Canada through the application of technology. In June 1999, the SBA Coordinating Committee formed an implementation subcommittee to develop and implement a harmonized system to assist in expediting the movement of people between the two countries. The group has been intensively working since August 1999 on this project which was named NEXUS.

The NEXUS Working Group designed the pilot program to test the use of medium technology at the Blue Water Bridge between the United States and Canada. Applicants are screened for violations by U.S. and Canadian federal inspection services. Participants in the program are issued photo-identification cards, a proximity card, and a windshield decal for each registered vehicle. When the traveler's vehicle enters the NEXUS lane, the proximity card signals the local computer to bring up information on the traveler, including a picture. The NEXUS traveler must stop at the initial inspection stop, present membership identification, and make a declaration (only goods specified under their exemption are allowed).

NEXUS participants are subject to compliance inspections, as are travelers in non-NEXUS lanes. In addition, the primary inspector has the discretion to send the NEXUS traveler to secondary inspection if the need arises. An evaluation of dedicated commuter programs, including the NEXUS program, is currently underway. The results of this evaluation will help determine if this technology should be expanded along the Northern Border.



**Customs Inspector examines x-ray images.**

### *Secure Electronic Network for Travelers Rapid Inspection (SENTRI)*

SENTRI was established to test the idea that a dedicated commuter lane can work on the Southwest Border. The goals of the SENTRI project are to enhance border security and reduce travelers' wait times. SENTRI uses the latest technology to provide both positive traveler identification as well as security against smuggling and other violations. Although SENTRI is primarily a Customs/INS partnership, there are six agencies involved with the various aspects of the project. This cooperative interagency effort resulted in SENTRI being installed at several sites around the country. Enrollees in the SENTRI program must undergo a background investigation and an interview. Through this process, a person's citizenship, residence, employment, and criminal record are reviewed. This information, including a digital photograph that documents approved enrollees, is electronically filed. A SENTRI identification card is issued to each approved enrollee. A radio transponder is installed on the enrollee's vehicle. When the vehicle enters the SENTRI lane, the transponder signals the local computer to bring up the information on the people registered in that vehicle. At the same time, a License Plate Reader captures license plate information. The driver swipes his SENTRI identification card through a card reader. The Inspector monitoring the SENTRI lane sees a full-color picture of the people who are allowed in the vehicle, as well as pertinent information on the vehicle and its occupants. Once the vehicle and occupants are cleared, the vehicle will be able to proceed into the United States. No one is allowed to use the SENTRI lane if they are not enrolled in the program and traveling in the proper vehicle. SENTRI also uses pneumatic bollards, tire shredders, gates, and jersey barriers to completely enclose the lane. This means that, once a vehicle enters the SENTRI lane, it cannot depart until cleared by the system. SENTRI lanes are currently operational at San Ysidro and Otay Mesa, CA, and El Paso, TX. Review of border security operations along the Southern Border throughout FY 2002 will determine further expansion of this program.

### *Automated Targeting System – Passenger (ATS-P)*

ATS-P is an application used by Customs officers at field locations. Operational since October 2000, this web-based computer system is used primarily to quickly identify and gather tactical information on passengers that may require a higher degree of inspection or examination upon their arrival in the United States. ATS-P enables users to target individuals for possible involvement in all types of international crime, including terrorist activity and narcotics trafficking. APIS integration into ATS-P, coupled with the recent aviation security legislation requiring 100 percent carrier participation, will enhance Customs ability to identify and target potential high-risk travelers. Customs continues to explore future technological enhancements to this program that will further assist field inspectors in identifying possible violators.

For the overall objective of intercepting high-risk passengers, Customs has established the following goals for the future:

- ◆ Intercept 98 percent of arriving targeted passengers.
- ◆ Achieve a targeting efficiency ratio of 10 to 1 for targeted air passengers and 20 to 1 for targeted land passengers.

## Maximize passengers' voluntary compliance with Federal laws and regulations by increasing their awareness of Customs requirements (Informed Compliance).

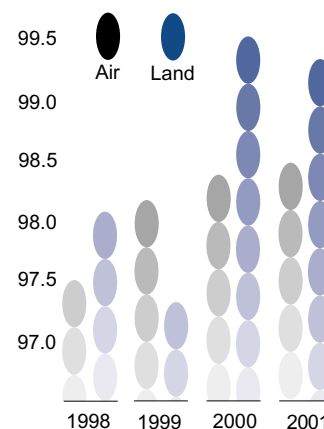
By improving the knowledge of both the frequent and infrequent traveler, Customs believes the number of inadvertent violations can be significantly reduced. Communication methods, such as posting information on the Internet, loop radio broadcasts at land borders, videos providing airline information, and electronic information booths (kiosks), allow inspectors to focus more fully on serious violators. Customs has established Passenger Service Representative positions at key airports of entry to assist travelers with Customs problems and to manage local complaints. We have placed informational signage and supplied brochures at all inspectional facilities. At all locations, we have distributed "Customer Comment Cards" supported by a comment analysis program as part of our partnership with the traveling community. We support a national complaint processing program that assesses, analyzes, and responds to all complaints. Results of comment card and complaint analyses are applied to improving our processes through operational changes in supervision, policy, or training.

**Goal:** Achieve a compliance rate of 98.5 percent for all arriving air and all arriving land passengers in FY 2001.

**Measured Results:** The compliance rate for arriving air passengers in FY 2001 was 98.43 percent, or very slightly less than the target for the year. The deviation from the target goal is not significant and Customs considers this goal for the year met. The actual compliance rate for arriving land passengers was 99.32 percent. The target goal for land passengers was also met.

Customs will continue to explore new technologies that will enable us to enforce border security by improving our targeting capabilities, while presenting the least intrusive inspections for travelers. The use of biometrics is currently being explored as one option that may provide this increased capability. Customs will also continue to work with other Federal agencies to ensure the security of our borders with new programs such as the Integrated Automated Fingerprint Identification System (IAFIS), which allows for the fingerprinting of all non-government personnel who require access to the Federal Inspection Service (FIS) area. The system collects digital fingerprints of an applicant and transmits them to the Federal Bureau of Investigations (FBI) where they are checked against their files, and the results are returned to Customs. A national Memorandum of Agreement was completed on September 12, 2001, between the FBI, Federal Aviation Administration (FAA), and Customs, which will allow the airport authority and Customs to share the fingerprinting results of all new applicants applying for access to the FIS. We will continue to examine new methods of communicating information to travelers to ease their Customs clearance procedures, not only for entering the United States, but also for entering foreign countries. The identification of high-risk travelers and the expeditious movement of low-risk passengers will continue to be a priority for Customs.

**Air and Land Passenger Compliance Rate**  
(percentage)





## TRADE AND ECONOMIC GROWTH

**GOAL:** To stimulate and protect the economic interests of the United States by maintaining a sound trade management system which maximizes compliance with import and export laws and moves legitimate cargo efficiently.

### OVERVIEW

Customs serves a vital role in processing imported goods across our international borders and protecting our nation's economy from trade violations and unfair trade practices. Customs trade personnel use their expert knowledge of trade issues, automated tools, and data-driven analytical methods to meet the challenge of processing over 23.7 million entries a year in an efficient and effective manner. Data collected through Customs efforts are being carefully analyzed and used to develop various individual and aggregate compliance rates that are tangible measures of success in achieving Customs goals.

At the core of Customs trade management is the effective identification and control of trade risk. The Risk Management Process enables Customs to identify those imports that pose the greatest risk of non-compliance and to focus our finite resources on solutions that ensure public health and safety, and promote legitimate international trade. Goods determined to be low risk are cleared with a minimum of Customs involvement, while imports posing a greater threat receive a more detailed and thorough examination and review.

The Risk Management Process integrates a variety of flexible, automated, and data-driven methods to identify and remedy proven and potential areas of non-compliance. Compliance Measurement, a base component of the Risk Management Process, provides Customs with an objective "picture" of import compliance by collecting a statistically valid pool of data for overall imports and specifically targeted industry sectors known as PFIs. Data is derived and compiled from disciplined, information-driven cargo examinations and document reviews.

On the export side, Customs Automated Export System (AES) electronically collects export shipment information from exporters, freight forwarders and carriers. AES is a joint venture involving Customs, the Bureau of the Census, other government agencies, and the trade community, and promotes the accuracy and timeliness of export data. With more accurate and timely data, Customs is better able to target violators of United States export laws and regulations.

### CHALLENGES

The national tragedy that took place on September 11, 2001, has reinforced Customs priorities and focus. It is now more important than ever to ensure that our borders are secure, and that we can respond to any threat from groups seeking to introduce implements of terrorism or gain access to them.

What has not changed is Customs strategy to facilitate the movement of legitimate trade, expand opportunities for export, and promote implementation of international agreements that stimulate a more free and open trading environment. Success is measured by how well we use quality, data-driven analysis, integrate risk management techniques, and improve



Seaport operations at the  
Port of Miami.

automation and technology to confront significant trade violations and facilitate legitimate trade. Customs administration of trade management involves a delicate balance between facilitation and enforcement.

Recognizing the importance of maintaining this critical balance, Customs has effectively applied the principles of risk management to a variety of major operational programs and activities. Trade personnel have embraced the methodology, and are more focused and team oriented, but Customs still faces several challenges that test our ability to set realistic goals and maintain high levels of compliance.

## FISCAL CHALLENGES

The measure of import duties actually collected by Customs versus projected duties had all goods been entered in full compliance is known as the Revenue Gap. Customs uses the Revenue Gap, along with other trade data, to target areas that can be improved through informed and enforced compliance activities within the trade community. Continued improvements in the collection, analysis, and tracking of revenue data will lead to actions that contribute to reducing Gap estimates each year. For FY 2001, revenue collections exceeded 99 percent of projected duties, resulting in a revenue gap percentage of 0.9 percent.

### Revenue Gap (in millions)

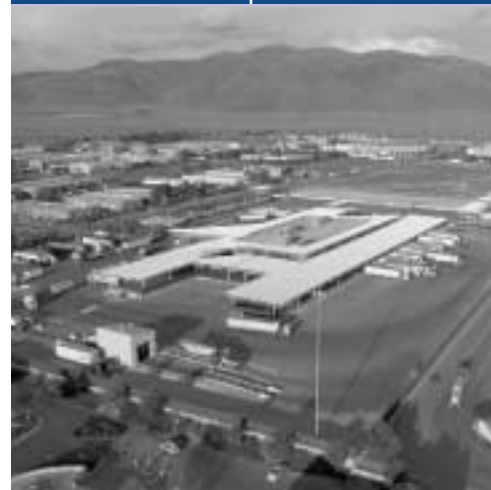
	1997	1998	1999	2000	2001
Actual Revenue Collections:					
Consumption entries	\$18,721	\$18,537	\$18,405	\$19,858	\$19,272
Related fees & taxes	\$1,951	\$1,885	\$1,972	\$2,285	\$2,472
	\$20,672	\$20,422	\$20,377	\$22,143	\$21,744
Compliance Measurement Revenue Estimates:					
(a) Estimated Underpayments	\$371	\$434	\$383	\$414	\$418
(b) Estimated Overpayments	\$161	\$91	\$131	\$132	\$220
(c) REVENUE GAP	\$210	\$343	\$252	\$282	\$198
Total Potential Revenue:					
Actual Revenue + Revenue Gap	\$20,882	\$20,765	\$20,629	\$22,425	\$21,942
Revenue Gap Percentage:					
Revenue Gap as percent of Total Potential	1.01%	1.65%	1.22%	1.26%	0.90%

Revenue Gap (c) consists of (a) - (b):

- (a) Estimated duties, taxes, and fees owed to Customs due to non-compliant filing of entries
- (b) Estimated duties, taxes, and fees that were overpaid to Customs at filing of entries
- (c) Estimated net amount of duties, taxes, and fees that were owed to Customs due to non-compliant filing of entries

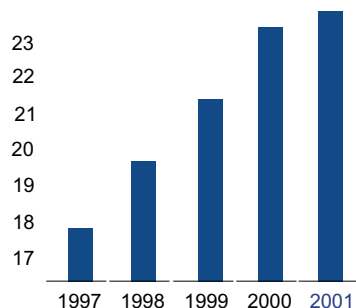
However, the Revenue Gap is only a statistical estimate and is relatively imprecise. Customs does not recognize the Revenue Gap as a receivable or use it to identify, collect from, or refund monies to specific accounts. There are two major reasons why the Revenue Gap may not be reliable:

- 1) The revenue changes occur only for a small number of lines even though the sample size for many of the Harmonized Tariff Schedule chapters are large; and
- 2) The variability of the revenue change is large when it does occur.

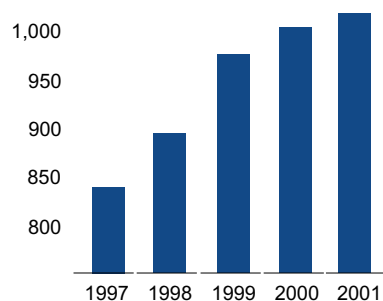


Cargo activity at the  
Port of Otay Mesa, CA

**Trade Compliance Workload**  
(Entries in millions)



**Value of Trade Compliance Workload**  
(Total Import Value in billions)



## WORKLOAD CHALLENGES

The last 10 years have seen a dramatic increase in the volume of imports into the U.S. economy and the total number of U.S. importers. In FY 2001, the total number of U.S. importers increased to 526,084 while total imports reached \$1.175 trillion. The rapid expansion of Internet commerce through express courier locations promises to further increase demand for Customs related services. Workload continues to outpace marginal growth in the Customs workforce. This is why a risk management approach is so important. The approach is used not just to help expedite shipments, but to marshal resources toward efficient and productive examinations.

## AUTOMATION CHALLENGES

Among the greatest challenges confronting Customs and the trade community is that of automation. Currently, Customs uses the Automated Commercial System (ACS) to process the huge number of shipments that cross our borders each year. ACS has exceeded its life expectancy and simply will not meet long-term requirements driven by the growth in trade, enforcement responsibilities, and legislation.

Development has now begun on ACE, a new system which will replace ACS. This effort is being led by the Customs Modernization Office (CMO) of OIT. ACE will support both Customs and the trade community by processing imports more efficiently and by automating time-consuming and labor-intensive transactions. ACE will allow Customs to move goods through the ports and on to market faster and at lower cost to the trade. ACE will also provide importers with national views of their activity, thereby helping them to improve their compliance. The information-sharing capabilities of ACE will also enhance Customs enforcement efforts.

Implementation of ACE will create the following benefits:

- ◆ Paperless e-filing.
- ◆ Consolidated statements and periodic payment.
- ◆ Reduced data entry.
- ◆ Streamlined automated manifests.
- ◆ National account management.
- ◆ Streamlined billing, collections, refunds, quota, and duty filings.

Congress appropriated \$130 million for ACE for FY 2001 and \$300 million for FY 2002. These funds allowed Customs to select the systems integration contractor and start the design, creation, and integration of the modernized trade system. On April 27, 2001, Customs awarded the Modernization Systems Integration Contract to the e-Customs Partnership (eCP), led by IBM Global Services. The eCP and Customs, working in integrated product teams, are well into defining the user requirements for ACE. The Trade Support Network, comprised of representatives of various trade groups, has also provided input. The first functionality of ACE will be available in early 2003.

## TRENDS AND MEASURED RESULTS

Customs has been very busy over the past year developing new commercial processing systems, conducting seminars and importer reviews, and investing heavily in training its personnel to manage increased workloads with a more account-based, customer service focus. Our program efforts reflect the need to manage resources while ensuring that imports and exports meet strict compliance requirements, and pose no threat to the health and safety of American consumers (public or industrial).

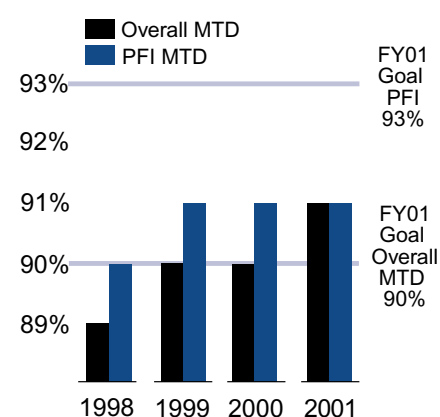
### Compliance Measurement

In FY 1995, Customs initiated the Compliance Measurement Program to collect objective statistical data to determine the compliance status of imports. Under this program, Customs conducts statistical reviews of imports entering the United States. The results of the compliance reviews are compiled and used to determine the overall compliance level of imports with U.S. trade laws, regulations and agreements, and estimate the revenue gap.

Customs compiles the compliance review data in the Customs Automated Port Profile System (CAPPS). CAPPS is an automated analysis tool that provides valuable information to help field managers identify areas of non-compliance for risk management purposes. During FY 2001, Customs continued to strive toward meeting its strategic goal of increasing trade compliance levels for imports. Recognizing the need to link operational activities to business results, we have compiled data that accurately depicts a focus emphasizing rate improvements for Major Transactional Discrepancies (MTD).

Customs achieved an overall MTD trade compliance level of 91 percent for all imported goods, a 1 percent increase over last year, while PFI MTD remained steady at 91 percent.

**Overall and PFI Compliance Rates (MTD)**



### Vessel and Air Manifest Export Compliance

Customs also attempts to measure compliance with trade laws in the vessel and air export environment. In doing so Customs assesses performance in four key areas: timeliness rate of filing manifest; timeliness rate of filing bills; matching rate of all bills; and compliance rate of the manifest. Each of these areas mandates a certain level of scrutiny in vital locations. Customs has developed a snap-shot compliance measurement for each category as indicated below:

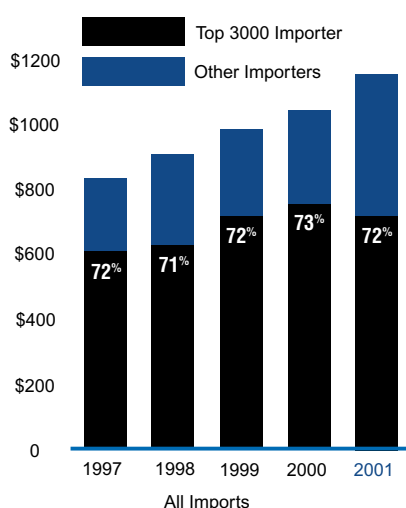
**Goal:** Customs strives to achieve an overall export compliance rate of 92 percent with key exporting requirements in the areas listed above.

	Vessel	Air
Timeliness rate of filing the manifest	97%	92%
Timeliness rate of filing bills	97%	91%
Matching rate of all bills	96%	86%
Compliance rate of the manifest	94%	88%

Compliance with key exporting requirements has been redefined and surveys conducted resulting in the establishment of baseline measures for the air manifest environment. During FY 2001, a compliance rate of 92 percent was achieved in the filing of air manifests. The goal of 92 percent compliance was not met in the other three areas.

In the vessel environment, Customs exceeded each of the four goals established for the program. The overall compliance rate was 94 percent. During FY 2001, Customs efforts in achieving this rate included the performance of 1,761 post audits that resulted in 3,530 violations, 517 penalties, and 1,384 liquidated damages. Compliance educational activities included 48 compliance workshops and 1,140 outreach visits.

**Top 3000 Importers as a Percentage  
of Total Value of Imports**  
(in billions)



## Account Management

The data from the import Compliance Measurement Program is the foundation for many of the risk-based programs used by Customs to target trade violations and assist in the facilitation of trade. The Account Management Program monitors the Customs operations and trade compliance of the nation's largest importers. In examining the impact of the Top 3000 importers, it is clear that their performance has a substantial effect on the overall trade compliance. The import value of Top 3000 U.S. importers comprised 72 percent of all U.S. Imports.

Ensuring the compliance of the largest U.S. importers gives Customs the ability to focus on managing an expanding workload. The Customs Account Management Program now includes over 1,100 companies, 275 of which are managed by a cadre of National Account Managers. The remaining 844 accounts are managed locally by Account Managers at various ports of entry nationwide. This represents a significant increase over the past year and reinforces Customs move from a traditional transaction-based processing methodology to a more customer focused, account-based approach for increasing compliance.

## Compliance Assessment

Customs conducts audits of major companies to assess their compliance with a variety of laws and regulations governing imports to the United States. In FY 2001, Customs continued to employ a methodology, "Compliance Assessment," to review the books and records of over 100 importers. Compliance Assessments provide an in-depth method of determining whether an importer's Customs declarations are accurate, and ensure the correct payment of duties and fees.

Compliance Assessments are performed according to professional audit standards. Compliance Assessment teams are led by, and consist primarily of, regulatory auditors. Other Customs trade experts including Import Specialists, International Trade Specialists, and Account Managers are part of the teams.

Following a Compliance Assessment that indicates company deficiencies (non-fraudulent), the Customs team, working with corporate managers, develops a Compliance Improvement Plan that guides the company in developing effective systems to ensure Customs compliance. Follow-up reviews determine if Compliance Improvement Plans are being effectively implemented.



For FY 2002, Customs has modified the compliance assessment methodology. Building on the knowledge acquired from 6 years of results of over 500 compliance assessments, a new audit program, “Focused Assessment,” has been implemented.

Focused Assessments utilize principles of risk management to concentrate on those areas of a company’s import procedures that present the greatest risk of non-compliance. Customs designed this methodology after studies showed that clear and strong internal controls are the best predictors of compliance. Through this new, streamlined methodology, Customs audit reviews will be less intrusive for compliant companies that have institutionalized effective internal business controls over their import processes.

### **Low Risk Importer Initiative**

Supporting Customs commitment to facilitate trade while improving the focus on potential import violations and unfair trade practices, Customs introduced a new program in FY 2001. This Low Risk Importer Initiative rewards importers who have demonstrated a high level of trade compliance. They receive a lower rate of cargo examinations, document reviews, and fewer requests for information. In just six short months, the Low Risk Importer Initiative eliminated the examination of a significant number of lines of merchandise imported by these highly compliant importers. By reducing the number of examinations on compliant importers, Customs was able to redirect its attention to importers with higher levels of risk.

### **Trade Fraud**

Using a variety of investigative programs, linked to a common goal of stopping predatory and unfair trade practices, Customs officers and investigators partnered to disrupt and dismantle entities employing illicit trade practices that negatively impact U.S. trade policies and laws. A sampling of program activities from FY 2001 shows the breadth and depth of Customs efforts in protecting intellectual property rights, eradicating forced child and prison labor, and investigating textile and North American Free Trade Agreement (NAFTA) violators.

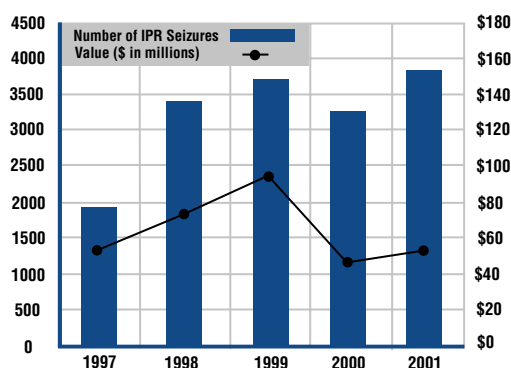
#### **♦ Intellectual Property Rights (IPR)**

As the global economy becomes more service and idea-based, and with the development of new technologies that decrease the cost of duplication equipment, the protection of intellectual property rights becomes a primary focus of Customs trade compliance and enforcement strategy. To address this and other intangible concerns, Customs has established a Cyber-Smuggling Center. The Center is dedicated to the investigation of international criminal activity conducted on, or facilitated by, the Internet, including intellectual property rights violations.

Customs and the Federal Bureau of Investigation (FBI) have also established the National Intellectual Property Rights Coordination Center (IPR Center), located at Customs Headquarters. The IPR Center is a multi-disciplined entity employing a coordinated approach against IPR violations on the domestic and international fronts. The IPR Center has coordinated a number of significant ongoing IPR criminal investigations. The use of targeting via Customs cargo selectivity criteria has led to the seizure of several import shipments.



**Customs inspector observing truck processing through a large imaging machine.**

IPR Seizures Compared to  
Value of Seizures

Since FY 1997, Customs has spearheaded a myriad of IPR enforcement initiatives to impede counterfeits from injuring our economy, and have produced measurable results. Over 5 years, Customs has effected 15,873 seizures of infringing goods with a domestic value of \$331 million. In step with the expansion of E-commerce, media-related items such as computer software, CD-ROMs, and music and video CDs continue to surface as industry areas most vulnerable to counterfeiting schemes.

#### ◆ *Forced Labor*

Title 19, United States Code, Section 1307, is the basis for prohibiting the importation of merchandise manufactured or produced with the use of forced, convict, or indentured labor. Customs, in enforcing this statute, seizes the merchandise, re-exports it, and recommends criminal prosecution for willful violators. This measure also includes products manufactured using forced or indentured child labor.

In February 2001, Customs announced that, in one particular case, a Chinese company pled guilty to one count of importing 134 million binder clips that had been assembled by female inmates at a Nanjing Detention Center. The U.S. importer paid a civil fine of \$500,000, and the owner of the importing company was convicted of tax evasion.

#### ◆ *Textile Investigations*

The illegal transshipment of textiles and wearing apparel was a major trade focus for Customs in FY 2001. To combat this threat, Customs performed a total of nine Textile Production Verification Team (TPVT) visits. Those visits resulted in a review of 438 factories, 101 of which were permanently closed, and evidence of illegal transshipment was found in 18 factories. In addition, 25 factories refused admission to the TPTVs; they were among the 73 factories determined to be high-risk for illegal transshipment based on the visits. In addition to the TPVT activity, Customs made trips to El Salvador and Nicaragua to verify claims of duty free treatment under the Caribbean Basin Trade and Partnership Agreement (CBTPA) in 24 factories. Of these, 16 did not qualify for the CBTPA benefits claimed.

#### ◆ *North American Free Trade Agreement (NAFTA)*

A major component of NAFTA is the elimination of barriers to trade for cross-border movements of goods and services among territories of the signatories—the United States, Canada, and Mexico. The goal is to promote conditions of fair competition, while increasing investment opportunities for the three trading partners. One of NAFTA's objectives is to eliminate tariffs on most goods originating in the three countries over a transition period of 15 years. We have recently passed the midpoint with significant results.

Since the implementation of NAFTA in 1994, trade between the United States, Canada and Mexico has grown by 128 percent. From less than \$297 billion in 1993, trilateral trade among the NAFTA countries has now surpassed \$676 billion, or more than \$1.8 billion per day. Among the three economies, investment reached \$1.3 trillion in 1999. As a result, millions of jobs were created in all three countries.

NAFTA claims represent approximately 40 percent of all commercial imports in the United States and eligibility for this program requires that goods “originate,” as defined in Chapter Four of NAFTA from one of the signatory countries. During FY 2001, Customs conducted 3,851 NAFTA verifications utilizing risk management processes to ensure compliance, resulting in the recovery of \$2,883,556.

One particular investigation involved the discovery of a conspiracy between two companies circumventing NAFTA. The companies were entering cellular battery packs below actual value, and making false country of origin claims. This fraud case resulted in collection of an additional \$4.2 million in fines, penalties, and duties.

### **Cargo Release**

In addition to the administration of trade laws, Customs is committed to preventing contraband from being introduced into the United States via commercial shipments. In FY 2001, Customs continued to dedicate resources towards improving the release of imported cargo using pro-active initiatives and advanced technology.

#### **◆ Industry Partnership Program**

Customs has been aggressively engaged in “preserving the integrity” of the entire commercial process through several proactive initiatives with the business community. These initiatives include the Carrier Initiative Program, the Business Anti-Smuggling Coalition, and the Americas-Counter Smuggling Initiative. These programs provide a forum in which the private sector and Customs can exchange ideas and information (best practices). By reviewing participants’ security systems and procedures, Customs helps them identify their risk. Once risk is determined, Customs can help improve a participant’s cargo and conveyance security by emphasizing physical integrity (facilities security), operational integrity (cargo/conveyance procedural security), and personnel integrity (hiring processes, background checks, and ID’s). Through these programs, Customs asks the private sector to share the responsibility of terrorist/narcotics prevention by enhancing their security and implementing training programs for their employees.

#### **◆ Non-Intrusive Inspection**

In FY 1999, in response to its five-year Technology Acquisition Plan, Customs received funds to accelerate the design, development, and testing of Non-Intrusive Inspection (NII) equipment. The Department of Defense (DOD), working with Customs, has developed an array of technologies that can identify, with reliability, operationally significant amounts of contraband including cocaine and marijuana concealed in commercial cargo and conveyances. As a result of that funding, Customs now has a total of 77 large-scale systems deployed at border locations and select seaports on both coasts. Congress has provided additional funds under the Emergency Supplemental Plan for additional systems in 2002.



**Inspectors conduct a routine inspection of a ship.**

## Automated Export System (AES)

## AES Performance Results

	Performance Goals	Measured Results
Number of filers:	6,000	5,302
Number of SED transactions:	20 million	18 million
Percentage of transactions filed electronically:	85%	77.3%

AES is the Federal Government's automated reporting system for collecting trade data from exporters and forwarding agents. AES collects data electronically from Shippers Export Declarations (SED) and manifests, accounting for 77.3 percent of all non-Canadian exports, with an error rate of 2-3 percent. There were 5,302 filers submitting 18 million export transactions through the AES.

The AES Vessel Transportation Module was released nationwide on June 1, 2001, to vessel carriers. Filing of vessel transportation data in AES relieves both the trade and government of handling

paper manifests and allows Customs to target for high risk shipments on booking information submitted up to 72 hours prior to departure.

Customs Teams at ports across the country are eagerly taking part in outreach to the export trade community. This program was designed to convert filers of paper SED's to electronic filing through AES. Currently, electronic reporting accounts for over 77 percent of all export transactions. Still Customs must handle approximately 240,000 paper SED's a month. Most of the remaining paper filers are small to medium sized exporters or freight forwarders who are reluctant to expend resources to participate.

There are two ways in which companies can participate in AES. The first is simply known as AES. Under this method, exporters will either purchase or develop their own software that enables them to transmit the commodity data to AES. The second is under AESDirect. Exporters can now submit their export shipment data electronically through the free Census website. AESDirect is an interactive system and has on-line edits that help ensure accurate data submission. This leads to improved data assessment by Customs analysts and enhances performance in ensuring export compliance.

In a continued effort to reduce the monthly filing of paper SEDs in some locations, Customs and Bureau of the Census (Census) personnel together conducted a blitz of the largest paper filers to migrate them to either AES or AESDirect. Jointly, Customs and Census visited 256 companies during May-July 2001.

Census, with Customs support, conducted approximately 50 AESDirect workshops in FY 2001. The AESDirect workshop provides certification and training on the use of the free Internet website, [www.AESDirect.gov](http://www.AESDirect.gov), for filing SEDs. Customs and Census, whether working together or independently with the exporting trade community, have assured the success of these programs by truly putting "service" back into customer service.

## NARCOTICS TRAFFICKING

**Goal:** Dramatically reduce the amount of illegal drugs entering the United States.

### OVERVIEW

The demand for illegal drugs remains strong in the United States. In response, drug smuggling organizations (DSOs) continue to introduce their contraband into the country through every conceivable means. Allowed to flourish, the DSOs bring with them violent crime, public corruption, money laundering, and the socially crippling effects of drug abuse.

The objective of the Customs Narcotics Trafficking Program is to disrupt and dismantle DSOs through the implementation of a unified intelligence, interdiction, and investigative effort, resulting in a significant reduction in the flow of drugs entering the United States.

Customs has the responsibility of being the protector of our nation's borders. As such, Customs plays a vital role in maintaining the integrity of our national security. The successful dismantling of DSOs is therefore a major priority for Customs. Customs recognizes the fact that a successful response to the narcotics smuggling threat requires a balanced and comprehensive strategy, one that interfaces with the functions of all Customs enforcement disciplines: investigations, intelligence, air and marine operations, and interdiction.

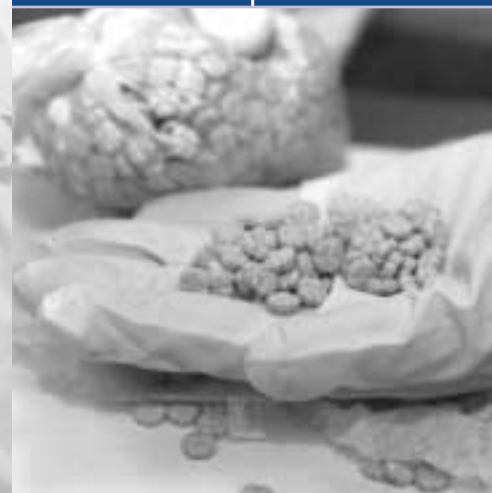
### CHALLENGES

There are many challenges associated with the Customs mission of reducing the amount of drugs entering the United States. Customs increasingly encounters DSOs that are sophisticated and tenacious in their quest to successfully pass drugs through the Customs first line of defense. They expend a great deal of effort and money to circumvent law enforcement efforts and to exploit law enforcement weaknesses, whether it be the development of new concealment methods, internal conspiracies (e.g., employees of a carrier), the attempted corruption of border officers, or the utilization of a variety of global transshipment routes. With the continued growth in international trade resulting from the NAFTA agreement, the sheer volume of cross-border activity is becoming a considerable challenge in itself.

Additional challenges in the narcotic smuggling environment include: the global disparity between established drug laws; governmental and/or law enforcement corruption existing in narcotics producing, manufacturing and transshipment countries; and, the increased sophistication of concealment techniques.

### TRENDS AND MEASURED RESULTS

In FY 2001, Customs special agents worked 22,741 narcotics smuggling investigations, which represented 57.5 percent of all cases worked during the year. Although the number of narcotics smuggling cases decreased by 5.2 percent from FY 2000, this decrease can be attributed to a large extent to the Customs-wide emphasis on complex, multifaceted investigations. These long-term investigations focus on large-scale DSOs, rather than expending manpower on the more numerous but less significant and lower impact investigations. As a result of these focused investigations, Customs was successful in arresting

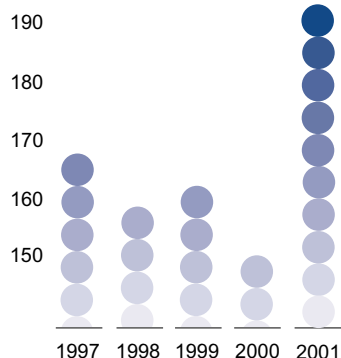


**The flow of illegal drugs into the U.S. continues to be a major threat.**



more significant members of the targeted DSOs, achieving more towards the strategic goal of disrupting the illegal activity.

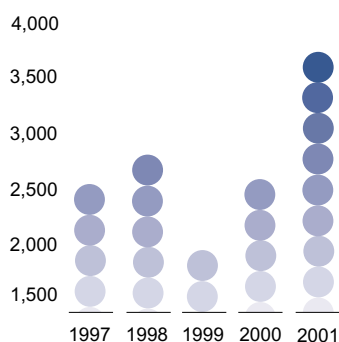
**Pounds of Cocaine Seized**  
(in thousands)



As evidenced by recent smuggling events, traffickers continue to challenge U.S. borders through the use of aircraft and maritime vessels. Realizing this, Customs asserts a balanced approach towards the commitment of our interdiction assets. During 2001, Customs consolidated air and marine resources deployed throughout the United States, Mexico, the Caribbean, and Central and South America yielded significant results. Customs successfully provided a flexible response to the drug smuggling threat throughout the Western Hemisphere. Along the Northern Border of Mexico, our Citation interceptor aircraft assisted Mexican national interdiction forces in the seizure of significant amounts of marijuana, various assets, and the arrest of numerous suspects. These efforts resulted in the disruption and dismantling of active smuggling organizations in the Northern Mexico area.

Because of the close proximity of our aircraft to air and marine smugglers operating in the Bahamas and the Southeast United States, significant results were achieved through early detection and prosecution of air and marine smugglers. Thousands of kilograms of cocaine, hash oil, and marijuana were interdicted from smugglers utilizing general aviation aircraft for airdrops to waiting “go fast” vessels.

**Pounds of Heroin Seized**

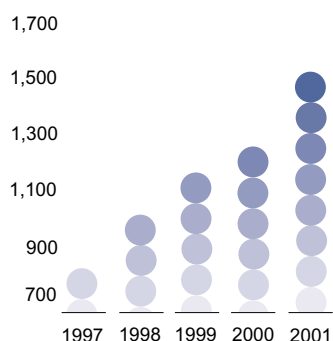


In the land-border environment, Customs has deployed 77 large-scale Non-Intrusive Inspection (NII) systems as part of its 5-Year Technology Plan. These NIIs are active at ports of entry along the southern tier of the United States, at select seaports on both coasts, and at ten Northern Border ports of entry. These systems, such as the Vehicle and Cargo Inspection System (VACIS), Truck X-ray system, Sea Container X-ray system, Rail VACIS and Heavy Pallet Examination system, scan large conveyances and allow Customs to detect narcotics and other contraband concealed deeply within an ever-growing volume of commercial cargo and conveyances. In FY 2001, NII technology resulted in 265 seizures consisting of over 311,000 pounds of narcotics. This is a substantial increase from the 166 seizures totaling 119,221 pounds recorded in FY 2000. Customs is currently working on expanding the deployment of NII systems to additional ports of entry located on the U.S./Canada border.

**Goal:** Seize or assist in seizing 160,000 pounds of cocaine; 2,600 pounds of heroin; and 1,370,000 pounds of marijuana.

**Measured Results:** Customs seized or assisted in seizing 190,856 pounds of cocaine; 3,622 pounds of heroin; and 1,503,941 pounds of marijuana.

**Pounds of Marijuana Seized**  
(in thousands)



The overall quantity of cocaine, heroin, and marijuana seized in FY 2001 increased 17.6 percent over that seized in FY 2000 (up 28 percent for cocaine, 41.4 percent for heroin, and 16.4 percent for marijuana). Seizure totals have continued to increase along the Southwest Border and in Florida, indicating that these remain primary smuggling routes utilized by DSOs.

One of the factors contributing to the increase in cocaine seizures in FY 2001 is the continued coordination of law enforcement efforts in targeting DSOs operating in and transporting drugs through identified high risk areas, such as the Southwest Border and Florida corridors. Cocaine is smuggled into the United States primarily via the Mexico/Central America Corridor and the Caribbean Corridor.

In FY 2000, U.S. law enforcement targeted a significant smuggling threat involving the use of vessels to transport cocaine to the United States and Europe via the eastern Pacific Ocean (EastPac). In response to this threat, Customs initiated a myriad of operations involving air, marine, investigative, and intelligence assets. As a result of extensive patrolling and targeting activity, Customs was involved in a significant number of incidents involving ton quantities of cocaine. Continued targeting and interdiction activity in FY 2001 resulted in an increase in the amount of cocaine seized from vessels in the EastPac, signifying that cocaine smuggling via the EastPac remains a significant smuggling threat to the United States. For example, an incident occurred in FY 2001 in which Customs air units targeted a vessel traversing the EastPac. Subsequent inspection of the vessel resulted in the seizure of more than 12 tons of cocaine.

The quantity of heroin seized in FY 2001 amounted to 3,622 pounds, 41.4 percent more than the total quantity seized in FY 2000. The use of couriers traveling via commercial air continues to be the primary heroin smuggling method encountered by Customs. In FY 2001, Customs seized 2,139 pounds of heroin from commercial air couriers, an increase of 18 percent from the 1,756 pounds seized in FY 2000. FY 2001 commercial air seizures accounted for 59 percent of the total amount of heroin seized by Customs.

The majority of the heroin seized by Customs in FY 2001 was of Colombian origin, with most transiting directly from Colombia. In addition, Colombian traffickers actively use other South and Central American countries and Mexico to funnel the heroin to American markets. Seizures from the major transshipment countries increased dramatically in FY 2001. Colombian traffickers have also been identified as using well-established cocaine smuggling routes to transport heroin to the United States.

The total quantity of marijuana seized in FY 2001 was 1,503,941 pounds, an increase of 16.4 percent over FY 2000. The FY 2001 total is an increase of more than 100 percent from the total amount of marijuana seized in FY 1997. In addition, this is the fourth consecutive year that Customs marijuana seizures established a new record high.

Mexico continues to be the major marijuana source area, with significant seizures being effected along the Southwest Border, the preferred entry point for DSOs. Investigative and intelligence information continues to point to major distribution groups exploiting all available means of conveyance, including the co-mingling of marijuana consignments with legitimate cargo. These groups establish nationwide distribution channels and move consignments from coast to coast.

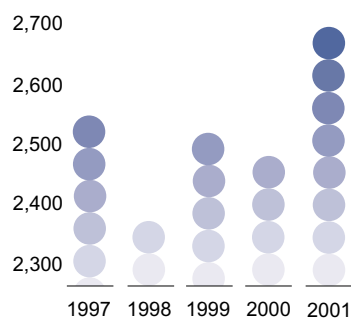
Jamaica and Canada remain secondary source areas of marijuana destined for markets within the United States. Marijuana from Jamaica is usually transported via maritime conveyance. Locations in the Northwest and Northeast are preferred entry points for marijuana coming from Canada to the United States.

The smuggling of synthetic drugs continues to be a major area of concern for U.S. Customs. In FY 2001, Customs seized approximately 3,185 pounds of methamphetamine, an increase of 11.4 percent from FY 2000. Of significant interest is the increased seizure activity involving pseudoephedrine tablets. Pseudoephedrine is one of the primary precursors used in the manufacture of methamphetamine. In FY 2001, Customs staff along the Northern Border seized more than 84 million pseudoephedrine tablets.



**Air Interdiction Officer in  
search of smugglers.**

Number of Cocaine Seizures



Customs also seized approximately 7.2 million MDMA tablets. MDMA is more commonly known as “Ecstasy.” Although this is a decrease of 22.6 percent from the FY 2000 total of 9.3 million tablets, the decrease can be viewed as a result of successful interdiction activity. In FY 2000, Customs mounted a national operation targeting the use of Express Consignment Services (ECS), e.g., Federal Express and United Parcel Service, to smuggle and distribute MDMA. A decline of more than 80 percent in the seizure activity at ECS processing facilities in FY 2001 evidenced the successes attained in forcing the MDMA smuggling organizations to identify and utilize alternate means to smuggle their illegal commodity. Despite Customs successes, the seizure of 7.2 million tablets is proof that there continues to be a large demand for MDMA in the United States. In fact, studies show that MDMA use has spread to the high school and junior high school age groups and that an unprecedented number of America’s young are abusing MDMA.

**Goal:** Effect at least 2,500 cocaine seizures; 860 heroin seizures; and 15,280 marijuana seizures.

**Measured Results:** Customs effected or assisted in effecting 2,698 cocaine seizures; 916 heroin seizures; and 14,587 marijuana seizures.

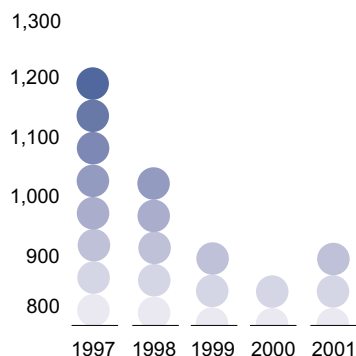
The total number of drug seizures for these three categories was essentially constant from FY 2000 to FY 2001. In relation to FY 2000, the number of cocaine seizures was up by 8.5 percent, the number of heroin seizures was up 6.4 percent, and the number of marijuana seizures was down by 1.9 percent. In regard to the goals set for FY 2001 seizures, Customs achieved 107.9 percent of its goal for cocaine; 106.5 percent of its goal for heroin; and 95.5 percent of its goal for marijuana seizures.

The number of marijuana seizures in FY 2001 was 4.5 percent below projection and 1.9 percent below the number in FY 2000. At the same time, more pounds of marijuana were seized by Customs in FY 2001 than in any other year. Greater load sizes, in general, may have contributed to the drop in the number of seizures. Another possible factor is the heightened state of alert on the border in the period following the events of September 11, 2001, which deterred the entrance into the country of hundreds of smaller, personal-sized loads.

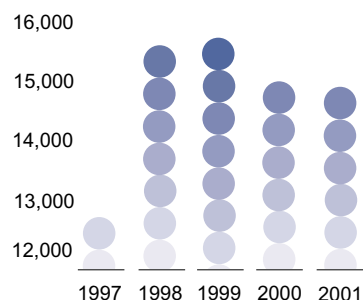
### Canine Enforcement Program

The Customs Canine Enforcement Training Center, located in Front Royal, Virginia, provides training for all Customs Canine Enforcement Officers and other Federal, state, local, and foreign law enforcement agencies. Since its inception, in 1970, the Canine Enforcement Program has grown from the original six canine teams to 512 working canine teams. The Customs Service Detector Dog Breeding Program utilizes genetic selection of breeding stock, based on scientific principles, to maximize the number of dogs suitable for entrance into narcotic and currency detection training. The canine teams are assigned to 73 of our major landborder crossings, international airports, and seaports. Customs canines account for a significant proportion of narcotics seizures.

Number of Heroin Seizures



Number of Marijuana Seizures



## CRIMINAL FINANCE

**Goal:** Strengthen domestic and international efforts to disrupt the flow of illegal money derived from global criminal activity.

### OVERVIEW

The objective of the Criminal Finance program is to identify, disrupt, and dismantle the systems and criminal organizations, especially those with a nexus to terrorism, that launder proceeds generated by smuggling, trade fraud, and export violations. Customs pursues the accomplishment of this objective by reducing the operating capital and illicit proceeds of those organizations, disrupting their financial infrastructure, and disrupting the payment systems used to convert illegal proceeds into legitimate commerce.

Some of the strategies employed by Customs to accomplish our Criminal Finance goal and objective include anti-terrorism efforts such as targeting funds within terrorists' money laundering systems and optimizing the establishment and use of multi-agency task forces. In addition, Customs has embarked on implementing the 2001 National Money Laundering Strategy, expanding efforts to dismantle the Black Market Peso Exchange (BMPE) money laundering system, increasing scrutiny of money service businesses, and contributing to the training of Customs foreign counterparts to gain their support.

### CHALLENGES

The use of the Internet and electronic commerce mechanisms creates an almost borderless environment in which Customs must operate. This environment is increasingly exploited by the proliferation of international crime groups, including international terrorist organizations. It is expected that the global banking environment will become more complex and the methods of laundering money will become more sophisticated. Alternative methods of money laundering are being devised on a continuous basis, such as Hawala and the BMPE money laundering systems. These varying new practices will remain difficult challenges for Customs to address.

Customs must adapt to an ever-changing environment by rapidly directing its resources and priorities to combat new threats such as terrorism and the funds used to support terrorism. Investigations will need to be conducted to enforce the new Federal statutes enacted to combat terrorism. In this regard, Customs will face a great challenge to become familiar with the various money laundering methodologies used by terrorist organizations and to overcome the language and cultural barriers which hinder successful investigation and penetration of these organizations.

In order to enhance efforts to fight money laundering and related underlying criminal offenses, Customs will continue to gain industry and international cooperation. This includes the cooperation of governments in Central and South America to combat the BMPE money laundering system, and working with the Mexican government on sharing bank and non-bank (casa de cambios) information as well as information on money couriers.

Analytical tools will be developed to identify money laundering trends, determine the effectiveness of Federal anti-money laundering efforts, and examine the use of armored cars (domestic and foreign-owned) and other mechanisms for transporting funds across the border, especially in the Southwest.



**Currency can be concealed by smugglers in many different ways.**



Seized currency that was  
concealed in a stereo speaker.

## TRENDS AND MEASURED RESULTS

Customs has a broad grant of authority in the conduct of international financial crime and money laundering investigations. Jurisdiction is triggered by the illegal movement of criminal funds, services, or merchandise across our national borders and is applied pursuant to the authority under the Bank Secrecy Act (BSA), Money Laundering Control Act, and other customs laws. Combined with our border search authority, Customs formidable enforcement efforts focus on the most significant international criminal organizations whose corrupt influence often impacts global trade, economic, and financial systems. Customs efforts are not limited to drug-related money laundering, but extend to the proceeds of all crime.

Customs has implemented an aggressive strategy to combat money laundering. Our approach involves interdiction efforts by Customs Inspectors and criminal investigations by Customs Special Agents. Partnerships are also in place with Treasury, the Financial Crimes Enforcement Network (FinCEN), and other agencies, for the design and implementation of innovative regulatory interventions, unique to Treasury, that dismantle and disrupt systems, organizations, and industries that launder ill-gotten gains.

**Performance Goal:** Seize or assist in seizing at least \$240 million in total monetary instruments.

**Measured Result:** In FY 2001, Customs seized or assisted in seizing \$162 million in total monetary instruments.

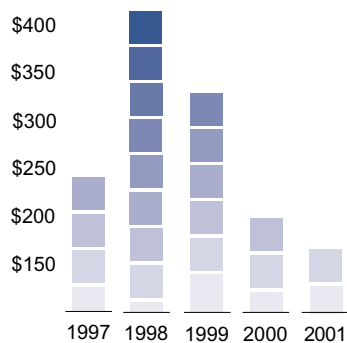
Total monetary instrument seizures were 32.5 percent below the projected amount for FY 2001 and 18.8 percent below the amount seized during FY 2000. Several factors contributed to this reduction. First, the number of Inspectors available to conduct outbound currency operations in airports throughout the country was reduced in FY 2001. This was the result of the reallocation of staff to the Northern Border to support the heightened state-of-alert initiated in December 1999, after Customs Inspectors captured three suspected terrorists on the Canadian border. Heightened alert activity associated with this event, which required certain ports of entry to be staffed with a minimum of two officers 24 hours a day, continued well into FY 2001.

In addition, collections of user fees Customs charges to travelers and/or their conveyances, which pay for Inspector overtime and can be used to augment outbound currency operations, were less in FY 2001, reducing the resources available for monetary seizure operations.

It also appears that experienced smugglers, unwilling to risk losing large amounts of currency, are opting to transport their currency in smaller batches, but at a higher frequency, to reduce the risk of detection.

Recent and ongoing changes in Federal seizure laws, and related judicial rulings, created uncertainty in FY 2001 over the degree to which the burden of proof would be placed on the Federal Government to sustain seizures made during the year. In addition, changes to certain state and local asset sharing laws have removed incentives in certain states for local law enforcement to participate with Customs during the seizure of assets over which Customs has jurisdiction.

**Total Monetary Instruments Customs  
Seized or Assisted in Seizing**  
(in millions)



Cross-cutting with ONDCP and ICCS



**Performance Goal:** Seize \$65 million in unreported currency being exported from the United States. This is included in overall monetary instruments above, but also constitutes a separate performance goal of its own.

**Measured Result:** Customs seized \$46.9 million in unreported currency being exported from the United States during FY 2001.

During FY 2001, Customs outbound currency seizures were 24 percent less than the amount of currency seized in FY 2000. There were a total of 1,199 seizures nationally. Several factors contributed to the decline in seized currency. First, many ports elected to divert resources from enforcement teams to passenger processing operations. Secondly, some experienced Inspectors have been lost to other agencies or career opportunities. And thirdly, it is believed that bulk cash smugglers are exploring different methods of transporting currency out of the United States, such as the BMPE.

In an attempt to address these issues, Customs conducted numerous pulse and surge, outbound currency interdiction operations under the auspices of Operation Windfall. This operation focused on redirecting resources to strategically selected locations for intensified operations. As a result of Operation Windfall, Customs made 199 currency seizures totaling over \$7.2 million. This outbound enforcement operation also resulted in 29 currency arrests and 95 National Criminal Information Center (NCIC) arrests.

In addition to Operation Windfall, Customs also conducted six National Outbound Currency Interdiction Training Classes at John F. Kennedy (JFK) Airport where over 45 Inspectors received the latest instruction in currency interdiction techniques. The JFK Currency Interdiction Instructors also conducted a National Outbound Currency Interdiction Training class in Miami for the South Florida Customs Management Center at which over 30 Inspectors from Miami, Ft. Lauderdale, and West Palm Beach received instruction.

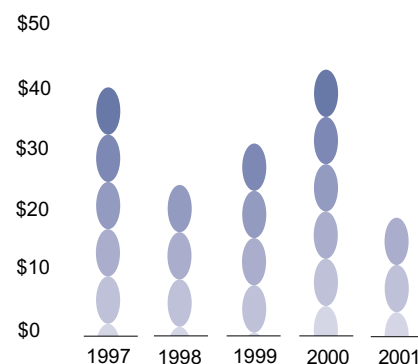
FY 2001 ended with the diversion of outbound currency Inspectors to airport security checkpoints to support national airport security initiatives in the wake of the terrorist attacks on the World Trade Center and the Pentagon on September 11<sup>th</sup>, 2001. The redirection of priorities from currency interdiction to airport security may have led to declining currency seizures.

**Performance Goal:** Seize at least \$37.5 million in real and other property as a result of money laundering investigations.

**Measured Result:** In FY 2001, Customs seized \$19.3 million in real and other property as a result of money laundering investigations.

The value of real and other property seized in association with financial investigations was 48.5 percent below the projected amount for FY 2001 and 54.2 percent below the amount reported for FY 2000. As mentioned earlier, recent and ongoing changes in Federal seizure laws, related judicial rulings, and local asset sharing laws may have negatively impacted the amount of property seized. In addition, the valuation of real and other property related to this performance measure was impacted by a downturn in some property values during FY 2001.

**Real and Other Property Seizures**  
(in millions)





**Customs Special Agents are trained in tracking cross-border movements of people, goods and money.**

### ◆ *Money Laundering and Anti-terrorism*

Following the terrorist attacks of September 11, 2001, Operation Green Quest was formed as a Customs-led multi-agency Treasury initiative dedicated to the identification, disruption, and dismantling of financial systems and infrastructures that terrorist organizations use to fund their work.

Operation Green Quest utilizes the full array of law enforcement techniques to pursue its objectives, including undercover operations, electronic surveillance, outbound currency operations, and the exploitation of intelligence data, financial data, trade data, and confidential source data. The initiative aggressively draws upon the full resources and expertise of the Treasury and Justice Departments and many other Federal agencies.

The Green Quest Command and Coordination Center is responsible for collecting, managing, and disseminating leads to field agents. The center will also serve as a coordinating mechanism for all investigative activity related to the initiative. Operation Green Quest agency representatives include representatives from a number of Federal law enforcement agencies.

### ◆ *Financial Crimes Operations*

Following are several examples of successful and ongoing Criminal Finance task force operations in which Customs Inspectors, Agents, and others are involved:

Operation Monopoly investigates alleged money laundering and Bank Secrecy Act (BSA) violations involving financial institutions, money service businesses (wire remitters and check cashing businesses), and telephone calling card businesses in Puerto Rico. There are currently 27 open investigations targeting individuals and businesses suspected of laundering narcotics proceeds through the aforementioned entities. In FY 2001, Operation Monopoly resulted in 15 seizures totaling more than \$4.4 million, the seizure of 3 firearms, 18 arrests, and 8 indictments on money laundering charges.

Operation Skimflick investigates money laundering violations related to the alleged skimming of millions of dollars from adult entertainment retail establishments. The unreported income is suspected of being smuggled to numerous foreign tax havens, and returned to the United States as business loans. Since its inception in June 1999, Operation Skimflick is responsible for the identification of 100 pieces of real property (valued at nearly \$14 million) as being subject to seizure and forfeiture. In addition, 33 search warrants were executed, over 900 grand jury subpoenas were served, and \$2.1 million in cash was seized. An account in the Channel Islands, England, with a balance of \$960,000, was frozen. In FY 2001, 20 videotapes depicting child pornography were seized.

Project Colt is an international task force, based in Montreal, Canada, that targets telemarketing fraud. The task force is led by the Royal Canadian Mounted Police and has participants from Customs, the FBI, the U.S. Postal Inspection Service, the Surete Du Quebec Police, and the Montreal Police Department. To date, Project Colt has identified over 1,200 U.S. and Canadian victims of telemarketing fraud. By gathering strategic intelligence information, Project Colt personnel have identified locations where the telemarketers instructed their

victims to send money. As a result of the identification of these locations, Project Colt personnel have seized and returned \$10 million to U.S. and Canadian victims. There are currently six open cases in the United States involving a total of 19 persons accused of multiple charges. There have been five U.S. indictments and three convictions. In FY 2001, \$689,198 was seized/recovered under the auspices of Project Colt, including seven bank accounts frozen in England.

In an effort to continue enforcement operations which attack the illegal exportation of unreported currency derived from illicit activities, Customs conducted two outbound operations in FY 2001. The five-week Operation Pressure Point yielded 163 currency seizures totaling \$5,535,498, and 30 arrests for BSA violations. The 10-week Operation Windfall resulted in 199 currency seizures totaling \$7,209,515 and 29 arrests for BSA violations. A critical component of these operations was the ability to gather accurate investigative/intelligence information and forward it to the appropriate entity in a timely and efficient manner. The successes realized from these and other Criminal Finance operations are indicative of the determination and drive of Customs personnel to achieve the goals established in this area.

## PUBLIC PROTECTION

**Goal:** Contribute to a safer America by reducing terrorist, criminal, and civil activities associated with the enforcement of Customs laws.

## OVERVIEW

Customs objectives in the area of public protection are to: protect the United States and its citizens from acts of terrorism; reduce potentially hazardous, harmful, and/or life threatening situations caused by the importation of forbidden or illegal commodities; enforce embargoes and sanctions imposed by the United States government against foreign countries; prevent the exportation of stolen property, including stolen vehicles; increase export compliance; serve and protect the public through innovative and sophisticated computer based investigations which disrupt illegal activity being facilitated across the United States borders via the Internet; and safeguard children and other vulnerable persons from human exploitation.

## CHALLENGES:

A number of key challenges face Customs in achieving its goal of protecting the United States and its citizens. Among these, terrorism has now emerged as our greatest challenge. A brief description of these key challenges is presented below.

- ◆ Identifying international terrorist members who are residing in the United States and are involved in the procurement of weapons of mass destruction (or their required elements and technologies).
- ◆ Dealing with the different levels of border control and enforcement capabilities among foreign countries when investigating transnational terrorist and criminal organizations.
- ◆ Working within the confines of limited resources while workloads (i.e., increased number of passengers and cargo) and responsibilities increase.
- ◆ Developing and implementing new technology to deal with continually changing trends in the smuggling environment (and in the narcotics, bulk money, and money laundering environments which often also help to support terrorism).
- ◆ Developing new technologies and techniques to inspect passengers and cargo with greater effectiveness and efficiency.
- ◆ Remaining current in the Cybercrime arena, which is rapidly expanding, by developing new technology (equipment and employee skills) and dealing with the inconsistencies of laws governing cyberspace among countries.

Various approaches have been employed to meet the challenges facing Customs in protecting the United States. Specifically Customs has:

- ◆ Enhanced our liaison with the FBI-led Joint Terrorism Task Forces (JTTFs) to help in identifying terrorists in this country.
- ◆ Increased our enforcement presence on the Northern Border to enhance our ability to deter, interdict, and investigate terrorist activity.
- ◆ Continued to provide training and assistance to foreign authorities in strengthening their borders and enforcement capabilities in the areas of weapons of mass destruction, firearms trafficking, and exports of stolen vehicles.



Customs patrols the coastline from the air.

- ◆ Continued international investigations of strategic-related offenses by working with our foreign customs and law enforcement counterparts and through Customs Attaches.
- ◆ Signed a Memorandum of Understanding with the FBI and National Insurance Crime Bureau (NICB) in order to improve our ability to identify stolen property.
- ◆ Developed measures to track the increased number of export-licensing violations and stolen vehicle interdictions made in the outbound passenger and export cargo arena. Recognizing that better outcome measures are necessary, Customs is striving to automate the export process to provide better targeting information and to increase resources to augment enforcement efforts.
- ◆ Increased aviation safety and security by training experienced Customs Inspectors in advanced technology areas and then assigning them to outbound airport teams. Customs is playing a major role in the interdiction and detection of weapons of mass destruction (chemical, biological, or nuclear) entering or leaving the United States.
- ◆ Addressed Cybercrime issues through dialogue with foreign officials regarding legal issues, continual training on new technologies, research and development of new software applications, and cooperation with officials in private industry.

## TRENDS AND MEASURED RESULTS

### Disruption of International Trafficking and Terrorist Activities

**Results:** Strategic investigative efforts in FY 2001 significantly disrupted illegal international trafficking in munitions and dual-use technologies, which are particularly vulnerable to being used in terror-related activities. Such trafficking includes illegal export of such items as military aircraft and missile parts, unmanned aerial vehicle components, night vision equipment, munitions items, and fiber optic gyroscopes. Customs has also been strengthening export controls by improving its GEMINI program, which encourages manufacturers of high technology products to report all suspicious export inquiries to Customs. Among the 1,927 strategic investigations cases worked in FY 2001, a number of operations were begun which target supply and procurement networks attempting to obtain munitions and military equipment for proscribed countries.

Investigative efforts resulted in significant disruption of international trafficking activities, particularly in regard to terrorism. Examples are:

A SAIC San Deigo, CA, investigation of a company in San Deigo indicated that the company was attempting to acquire F-14 parts for illegal exportation to Iran. Search warrants were served, company officers were arrested, and a large cache of military parts was seized. In December 2000, the company and its officers were indicted for conspiracy to illegally export military aircraft and missile parts. The company's officers pled guilty to conspiring to violate the Arms Export control Act and the International Emergency Economic Powers Act and were sentenced.

In November 2000, the SAIC Baltimore, MD, initiated an investigation of two subjects regarding the alleged attempted illegal export of U.S. Munitions List items (i.e., unmanned aerial vehicle components) from the United States to Pakistan. The subjects were taken into custody and charged with conspiracy to violate the Arms Export Control Act. They pled guilty in Federal Court to one count of conspiring to violate the Arms Export Control Act and submitting false statements. Both were sentenced to be incarcerated.



In February 2001, a subject pled guilty to conspiracy to illegally export defense articles. This plea resulted from a 2-year investigation by the SAIC Boston, MA, which revealed that this Pakistani citizen and other co-conspirators attempted to illegally export munitions list items, namely Generation III Aviators Night Vision Systems, to the Pakistani military. The subject and four co-conspirators were indicted for violations of the Arms Export Control Act.

In June 2001, a subject was indicted in New York for violations of the Arms Export Control Act and later arrested in Tucson by SAIC agents. The investigation leading to his arrest identified him as a major illegal exporter of U.S. munitions items. He illegally exported military aircraft parts from the United States to Switzerland for ultimate use in Iran.

In response to the terrorist attacks of September 11<sup>th</sup>, a large number of additional staff were assigned or detailed to activities to enhance counterterrorism efforts and to protect the American public. Customs greatly increased the number of agents assigned to the FBI-led JTTFs, increasing from 13 to 30 permanently assigned Agents plus an additional 19 temporarily assigned Agents. An additional 48 Special Agents are, or will soon be, supporting and enhancing Customs ability to counter the threat of terrorism along the Northern Border as part of Customs Northern Border Security Deployment Plan.

In September 2001, Customs Air Program provided numerous flights to support the exigent transportation needs of Customs and other federal law enforcement agencies. Three Black Hawk helicopters were relocated to the Washington, D.C., area for several weeks to provide airlift support in the Northeast Corridor. Customs provided seamless radar coverage and was an integral player in re-establishing airspace security in our Nation's skies. We also provided Airborne Early Warning radar coverage over critical infrastructure on the Eastern Seaboard.

Customs Tactical Communications Program provided radio and satellite telephone communications enabling law enforcement officers, faced with no communications or jammed public telephone lines, to communicate with each other and emergency personnel. The critical communications infrastructure that was destroyed during the attacks of September 11<sup>th</sup> in the New York City area was rapidly re-established. Efforts are also underway to enhance the Customs Northern Border communications infrastructure.

Many Special Agents were assigned to ports of entry for port security, and 125 Customs officers were designated for detail to the Federal Aviation Agency Air Marshal Program. Special Agents were also detailed to various FBI locations to assist in investigations by providing Customs expertise in investigation leads involving terrorist activities.

Also following the terrorist attacks, an unprecedented focus was placed on identifying, disrupting, and dismantling the financial systems and infrastructures used by terrorist organizations to support their terrorist activity. Operation Green Quest was formed as a Customs-led multi-agency Treasury initiative, which will use both existing statutes and newly enacted anti-terrorism statutes to seize funds and prosecute those violating money laundering and related laws in furtherance of terrorism. Green Quest will serve as the focal point for coordinating and disseminating financial terrorist investigative leads to field agents. Other efforts to disrupt terrorist activities by cutting off their sources of funding include establishment of a multi-agency terrorist financial task force within the New York, NY, SAIC office,

and expansion of Customs participation at existing and newly formed FBI-led JTTFs by providing expertise in financial investigations.

During the last weeks of September, 2001, an extraordinary number of assets were dedicated to the U.S. counterterrorism effort to provide intelligence support to Customs management and field elements and to the FBI. Plans made in September led to the October 2001 implementation of Operation Border Shield. Its mission is to maintain constant interaction with other Federal agencies and with the Intelligence Community and to produce intelligence reports, assessments, and lookouts related to suspected terrorist activity.

### **Other Measures to Combat Terrorism**

Immediately following the events of September 11<sup>th</sup>, Customs implemented an Alert Level 1 Operations (Code Red). Security and enforcement activity at every port of entry was increased commensurate with the threat, and ports were staffed with a minimum of two officers on a 24 hours per day, seven days per week, basis. In addition, Customs Inspectors were assigned to work with the United States Marshals Service at airport security checkpoints.

In order to be better able to respond to a terrorist threat, Customs has begun to address the critical issue of anti-terrorism training. Currently, Customs conducts a three and one-half-day seminar on Aviation Safety and Security/Anti-Terrorism. It is projected that, in FY 2002, this course will be expanded to contain more in-depth and useful information for the first-time officers. Also, Customs began Weapons of Mass Destruction Training in October 2001. This training is intended for Inspectors, Canine Enforcement Officers, and Import Specialists, and will provide the officers with information on detection, methods of delivery, and protective measures regarding chemical/biological and radioactive weapons of mass destruction.

Customs has 98 Inspectors at 14 major airports dedicated to outbound aviation safety and security/anti-terrorism efforts. These inspectors are utilized to inspect export shipments for weapons of mass destruction and other hazardous materials.

As part of the Customs anti-terrorism initiative, Customs procured \$10 million in Non-Intrusive Inspection (NII) equipment for Northern Border security. This equipment includes X-ray vans, Mobile Vehicle and Cargo Inspection Systems (VACIS), Contraband Detection Kits, and hand-held Vapor Tracer Detectors that can be used to detect explosives as well as narcotics. This equipment will be utilized to detect narcotics, weapons of mass destruction, and implements of terrorism.

A significant new tool in anti-terrorism and normal anti-smuggling efforts is the use of License Plate Readers (LPRs). During FY 2001, the installation of LPRs in outbound lanes was expanded from three ports with 11 lanes to 12 ports with 41 lanes. Future plans include the addition of LPRs at numerous other land border ports-of-entry. Customs utilizes outbound LPRs as a data collection system for investigative and enforcement purposes in support of inbound LPRs.

Customs will continue to develop hand-held Isotope Identifiers. These units will work in concert with the radiation detection pagers that Customs currently utilizes and the portal radiation detectors we are developing to identify possible implements of terrorism.



**Customs labs are among the best in the world.**

## Disruption of CyberSmuggling Activities and Organizations

**Results:** During FY 2001, Customs had an outstanding performance with regard to public protection within the CyberSmuggling arena. Customs has aggressively and successfully pursued Internet-related investigations in areas such as child pornography, child sex tourism, terrorism-related activities, violations of Intellectual Property Rights, foreign sales of pharmaceuticals, illegal trafficking in cultural property, narcotics trafficking, money laundering, and violations of trade embargoes and economic sanctions. In addition, Customs has increased investigator training in basic Internet investigations, which has led to more thorough computer-based investigations. Customs has also increased training in, and has utilized, computer forensic examinations to successfully facilitate the recovery of otherwise unobtainable evidence. Customs efforts have greatly hindered the ability of child pornographers, software pirates, money launderers, and narcotics distributors to exploit the electronic medium to commit their crimes. Also, without Customs efforts to train its investigators in forensic computer examinations, digital evidence obtained from computer media would have been overlooked during investigations, and prosecution of numerous criminal violations would have been seriously jeopardized.

Several significant cases highlight our very successful computer-based investigations that protect the public and are routinely conducted by Customs.

- ◆ Twelve U.S.-based suspects were arrested after they were identified in a worldwide child pornography production and distribution organization known as “BLUE ORCHID” that had been advertising videotapes on the Internet. The investigation also identified 17 American children who had been victimized. To date, eight defendants have been convicted for Federal child pornography crimes.
- ◆ A SAIC San Francisco, CA, investigation, conducted into the Internet sale of counterfeit software valued at \$1 million resulted in the arrests of two foreign nationals, as well as the following forfeitures: \$900,000, a website, a substantial amount of computer equipment, and a 2000 Corvette.
- ◆ A RAIC Columbia, SC, case resulted in the arrests of two U.S. citizens who had trafficked and sold counterfeit wearable items valued at an estimated \$1.3 million through the Internet. The principal violator was subsequently convicted for conspiracy to traffick in counterfeit goods and sentenced to 2 years imprisonment and ordered to pay restitution in the amount of \$138,246.
- ◆ Customs also protects the public through the investigation and arrest of individuals who distribute and sell pharmaceutical drugs that are marketed on the Internet and originate from foreign sources. The investigations are conducted with the cooperation of other Federal and international law enforcement agencies, as the drugs are sold to U.S. citizens without a medical exam or prescription. Illegally distributed pharmaceuticals may contain counterfeit or poisonous substances, which have caused deaths in extreme circumstances.
- ◆ Customs conducted computer forensic examinations, which enabled the discovery of critical evidence that led to the successful prosecution of violators. Without this computer analysis, a highly technical and time consuming process, valuable evidence would have been



Customs performs computer forensics and tracks illegal activity in websites and email.

unobtainable, and prosecutions would have been impossible. A SAIC Denver, CO, investigation is representative of the effectiveness of the Customs Forensic Program. As the result of a computer forensics analysis requested by a local police agency, computer evidence concerning Internet activity was obtained, which led to the conviction and 30-year sentence of a suspect for 1st degree murder, 1st degree sexual assault, and 1st degree burglary.

- ◆ Another successful forensics examination was conducted by the SAIC Chicago, IL, on a child exploitation investigation. The examination revealed three previously unknown co-conspirators and led to the identification of a victimized child and the child abuser.

Internet training was developed and provided to field offices to prepare and assist Agents with the investigation of Internet-related crimes. Separate courses in computer forensics were provided to field offices to enable immediate response to requests for forensic examinations. Also, Internet investigative training was provided to various foreign law enforcement officials in an effort to increase the skill set in the international law enforcement community.

### Interdiction of Stolen Vehicles

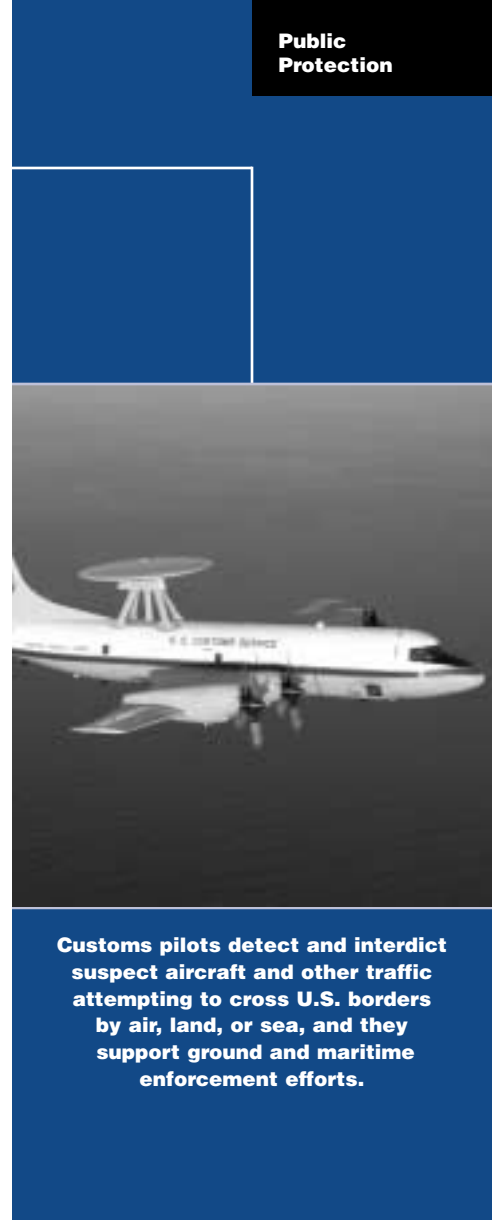
Outbound vehicle interdiction seizures, 463 for FY 2001 valued at \$6.8 million, have remained low because of resource constraints. Current staffing levels make it difficult to conduct comprehensive vehicle identification for Vehicle Identification Number switches and altered title documents. Since May 1999, exporters are required to present original titles to Customs for authentication. We have seen the number of vehicles being presented for export drop considerably. Stolen vehicle smugglers are using different techniques to export vehicles, such as concealing them behind false walls in sea containers and filling the remaining container with household effects knowing Customs is unable to x-ray every container leaving the country. Stolen vehicle smugglers are also driving the vehicles through Canada for export via vessel, knowing export laws there are less stringent.

**Goal:** To seize at least 750 outbound stolen vehicles.

**Measured Results:** A total of 463 outbound stolen vehicles were seized during FY 2001.

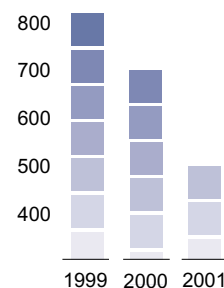
Customs expanded electronic reporting and our enforcement partnership with the National Insurance Crime Bureau (NICB) and the FBI from 29 ports to 78 ports of entry. The NICB has supplied 35 data entry officers and 19 Vehicle Identification Specialists (VIS) to augment their Special Agents who work in the field with Customs Inspectors to identify stolen vehicles prior to export. By reporting electronically, this allows for overnight batch processing of vehicle export data against NCIC (stolen vehicle reports) and the NICB database, and provides Customs with a collated hit report. This electronic reporting eliminates the need for the Inspector to run a query or mail hard copies to NICB, freeing the Inspector to conduct other outbound functions. The NICB VIS are an addition to the outbound vehicle enforcement teams. The VIS are experts in auto theft interdiction and are able to train Inspectors on vehicle identification methods.

Customs and the NICB have conducted three advanced auto theft interdiction classes at FLETC over the past year. Seventy-two Inspectors and Agents attended, as well as 10 NICB Agents. They were trained in the identification of fraudulent titles, altered Vehicle



**Customs pilots detect and interdict suspect aircraft and other traffic attempting to cross U.S. borders by air, land, or sea, and they support ground and maritime enforcement efforts.**

**Stolen Vehicles Seized**  
(Outbound only)





**Customs Inspectors search for stolen vehicles.**

Identification Numbers (VINs), identification of construction equipment and motorcycles, as well as Customs regulations regarding vehicle exports.

Throughout FY 2001, Customs initiated and conducted numerous outbound vehicle enforcement operations at land border ports, as well as at seaports. One such operation, Operation Hot Wheels, was conducted to assess stolen vehicle interdiction efforts through the use of the License Plate Readers in Southern California. The operation yielded 12 stolen vehicles, 15 felony arrests, 2 export violations, 2 currency seizures, and 1 weapons seizure.

A Customs working group developed a Concept Paper and User Requirements Document for a Vehicle Export Module for AES and this project is still ongoing. AES would act as the permanent host of all historical data relative to exported vehicles. A goal of the Vehicle Export Module is to move the collection of vehicle export data into a Customs-based database for accuracy and consistency. Analysis of this data will help Customs investigators identify money laundering schemes and criminal organizations involved in the exportation of stolen automobiles. Having this data will ensure timely and accurate information is used for targeting, investigating, and facilitating the interception of stolen vehicles.

### **Reducing Outbound Licensing Violations**

Seizures for licensing and technical violations reflect improved targeting techniques being utilized by the Inspectors doing examinations on export cargo. They also reflect a shift in priority toward targeting for license violations, particularly military goods.

**Goal:** To make a combined 695 seizures of munitions, technology and sanctioned shipments.

**Measured Results:** Customs seized a combined total of 827 shipments of munitions, technology, and sanctioned goods. The value of these shipments was \$85,770,104.

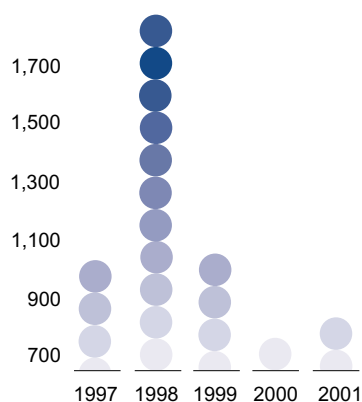
The number of seizures for FY 2001 was 827, an increase of 12.3 percent over FY 2000 seizures of 736. The value of those shipments increased by 69.1 percent to \$85,770,104 during the same period. The average dollar value for FY 2001 was \$103,712.34 per seizure compared to \$68,895.55 in FY 2000.

The number of technical or Shipper's Export Declaration (SED) seizure violations fell from 1,229 in FY 2000 to 818 in FY 2001, or a 33.4 percent drop in seizures. The dollar value for the technical seizures also dropped to \$32,004,621, or 29.3 percent when compared to FY 2000. The average dollar value of each seizure was \$39,125.45 for FY 2001 compared to \$36,810.02 for FY 2000.

The total of these two categories of outbound seizure violations was 1,645 in FY 2001, with a value of \$117,774,725. The total combined licensing and SED violation seizures were down by 16.3 percent but the value increased by 22.75 percent.

Customs, in conjunction with FLETC, has continued to provide training for Inspectors working Exodus, an outbound enforcement program. Six classes were held during FY 2001, with approximately 144 students attending the 3-day class.

**Outbound Licensing Violations**





Customs has been working with the Office of Defense Trade Controls (ODTC) on a number of issues that include the new Canadian exemption found in the International Traffic in Arms Regulations (ITAR). Inspectors from the field identified a significant enforcement concern regarding the Department of Defense (DOD) shipments being exported through the express courier facilities. Customs, DOD, and ODTC have been meeting to resolve the issue of export documentation.

Customs has reached an agreement with both the Department of Commerce and the Office of Defense Trade Controls regarding the Outbound Detention Policy. The policy would limit the amount of time cargo is held pending a determination from the appropriate licensing agency. Part of the agreement included a commitment by the agencies to provide enough staffing to process license determinations.

## **PUBLIC PROTECTION IMPROVEMENTS**

### **Working with State & Local Law Enforcement**

Through the use of the Treasury Forfeiture Fund (TFF), Customs has been able to utilize state and local law enforcement personnel as “force multipliers” during Customs-sponsored joint enforcement operations. The TFF enables Customs to reimburse state and local law enforcement agencies for overtime expenses incurred while their officers assist Customs Inspectors in conducting inbound and outbound enforcement operations.

As a result of the \$2 million in funds Customs received from the TFF during FY 2001, Customs established a total of 87 contracts with an estimated 1,012 state and local officers working with Customs personnel on the highways and in the jetways across the country. The \$2 million was distributed to 16 participating CMCs based on seizure activities for core areas of currency, stolen vehicle, and Exodus violations.

Customs has developed the Local Assistance Training (LAT) program. The program is designed to provide nationwide, uniform training to contract state and local officers. The training initiative enables Customs to bring these personnel into the workforce more expeditiously.



**Customs Marine Enforcement Officers patrol the high seas along the coastline. They detect and interdict suspect vessels.**

## MANAGEMENT ACCOUNTABILITY

*Build a strong and effective management support structure that assures the achievement of business results.*

**Customs mission is supported by a number of important functional areas that include:**

Human Resources Management  
Equal Employment Opportunity  
Training  
Financial Management  
Information Technology

### HUMAN RESOURCES MANAGEMENT

For more than 200 years, the U.S. Customs Service has been on the Frontline supporting our nation and defending its borders. Since 1789, we have continued that proud tradition, expanding our trade and law enforcement role to offer careers that combine opportunity, variety, and diversity.

Customs Office of Human Resources Management (HRM) designs and manages comprehensive human resources programs that identify, attract, and retain a high-quality Customs workforce. Heavy emphasis was placed on strategic recruitment initiatives, integration of applicant testing and technology, and implementation of programs to ensure the health, safety, and productivity of employees.

#### Strategic Recruitment

Through strategic workforce planning, Service-wide hiring needs for core occupations were projected to meet agency-wide mission requirements. Strategic workforce planning provides managers with a framework for making staffing decisions based on Customs Strategic Plan, budgetary resources, projected attrition, and a set of desired workforce competencies. Aggressive hiring initiatives developed pools of candidates who were available to bring on board at management's discretion. As a result, HRM filled all Congressionally mandated hiring for core Customs Inspector, Canine Enforcement Officer, and Criminal Investigator positions.

Effective use of Customs Nationwide Quality Recruitment Program resulted in over 5,600 applicants for Customs Inspector positions, and expanded use of the program for the Special Agent occupation resulted in over 6,900 agent applications. Strategic workforce planning also ensured an adequate supply of candidates for hard-to-fill pilot positions. All told, Customs filled 1,296 positions during FY 2001 from external sources. Through the sound utilization of this program, Customs has uncovered a wealth of highly qualified candidates with the highest standards of integrity to fill its critical Frontline positions.



**Customs workforce is the  
cornerstone of tradition, service,  
and honor.**

The Customs National Recruitment Program conducted 752 targeted recruitment activities to promote diversity. Included were traditional on-site college recruitment visits and conferences and “open houses” to provide prospective applicants with first-hand information about Customs occupations and programs. In addition, a diverse group of 23 college students participated in the National Intern Program to prepare for careers in key operational positions throughout Customs.

Workforce planning strategies incorporated objective tests and assessment tools to fill supervisory and other core positions with high-quality candidates. The first supervisory test opportunity bulletin “SA-14” was designed to promote Agents to the GS-14 level. The bulletin attracted 482 applicants of whom 64 were selected. Other promotion-related job knowledge tests were developed for first-line Supervisory Inspector, GS-11 Inspector, and GS-13 Agent positions.

### Employee Support/Safety

The implementation of a comprehensive Customs Safety Action Plan continued strategies to improve the safety of Customs employees and operations. In particular, injuries under the Workers’ Compensation Program and injuries to Canine Enforcement Officers were closely analyzed and addressed. A Family Liaison Officer Program was implemented to provide field expertise and support to Customs employees and their families who experience serious injuries or death—98 employees were trained as liaison officers. In addition, 399 supervisors and 156 field collateral duty safety officers received training in safety practices, and 81 Injury Compensation Coordinators received training related to workers’ compensation issues. The Customs Employee Assistance Program provided critical on-site counseling services for New York area employees affected by the September 11<sup>th</sup> terrorist attacks.

### Elimination of SF-50s (“first” in Federal Government)

Customs was the first agency to receive Office of Personnel Management (OPM) approval to eliminate the use of the government standard form, SF-50, Notification of Personnel Action. Through an innovative new process, employees are now notified about personnel actions via e-mail and an annotation to their leave and earnings statements. In addition, annual transcripts are mailed to all employees to report on their actions for the prior year. With more than 3 personnel actions per employee per year, over 79,000 SF-50s annually will not have to be printed, distributed, or filed.

### EQUAL EMPLOYMENT OPPORTUNITY

During FY 2001, the Office of Equal Employment Opportunity (EEO) focused on strengthening accountability as it relates to civil rights policies. The EEO Strategic Plan identifies accountability as one of its three primary goals. The objective is to strengthen organizational accountability for civil rights policies and responsibilities through education and training, performance measurement, and enforcement.



**Customs detector dog undergoing training at Customs canine training facility.**



Diversity at work.

#### ◆ Realignment

On October 1, 2001, all EEO program staff were realigned to report to the Special Assistant to the Commissioner (EEO). This realignment will:

- Ensure consistency of operations.
- Enhance uniformity and consistency in decision-making.
- Increase ability to identify and address issues more proactively.
- Establish mechanisms to pool EEO expertise and resources Customs-wide.
- Promote accountability for EEO related matters.

#### ◆ Automation

Another accountability related initiative in the Office of EEO was the automation of the complaint process.

The capabilities provided by automation are significant to the development of the EEO infrastructure. The system will support accountability at all phases of the complaints process. It will:

- Provide timely information for analysis in identifying trends, issues, and patterns of complaints.
- Enable EEO to act proactively and provide the foundation to conduct risk assessments.
- Support the measurement of mediation and counseling activities.
- Ensure that complainants rights and responsibilities are administered effectively.
- Ensure that Customs is in compliance with the mandates of the Equal Employment Opportunity Commission, the Merit Systems Protection Board, the Department of the Treasury, and the Federal Courts.

#### ◆ Training

The Office of EEO, together with other Customs offices, successfully completed a major training initiative which included areas such as:

- Managing a diverse workforce.
- Creating and maintaining respect in the workplace.
- Conflict resolution and mediation.
- Complaints processing.
- Dispute prevention.

The results of this training, i.e., its impact and affect upon the Agency's practices, will be carefully monitored and used in the development of subsequent training needs.

## ◆ Diversity through Strategic Recruitment

Customs continues to emphasize diversity through strategic recruitment. During FY 2001, Customs conducted 814 recruitment activities, of which 752 were directed toward women and minorities. Overall recruitment efforts resulted in contact with a total of 55,432 potential applicants. Customs continues to be viewed as an employer of choice by job seekers and a reliable employer by job placement organizations.

### Comparison of Full-Time Permanent Workforce by Gender/Race

FY 2000 versus FY 2001

	FY 2000	FY 2001	# Change	% Change
<b>Female</b>				
White	3,832	3,806	-26	-0.68%
Black	1,328	1,327	-1	-0.08%
Hispanic	1,095	1,135	40	3.65%
Asian American	310	321	11	3.55%
Native American	37	39	2	5.41%
Non-Hispanic in PR	7	4	-3	-42.86%
Total	6,609	6,632	23	0.35%
<b>Male</b>				
White	8,576	8,759	183	2.13%
Black	827	850	23	2.78%
Hispanic	2,473	2,638	165	6.67%
Asian American	474	488	14	2.95%
Native American	94	97	3	3.19%
Non-Hispanic in PR	37	32	-5	-13.51%
Total	12,481	12,864	383	3.07%
<b>Grand Total</b>	<b>19,090</b>	<b>19,496</b>	<b>406</b>	<b>2.12%</b>

## TRAINING

Customs established the Office of Training and Development (OTD) in FY 2000 in recognition of the significance of a skilled and well-trained workforce. In FY 2001, Customs strengthened its commitment to address Customs urgent need for training in America's Frontline mission. OTD set new records by every measure: it increased Customs training; substantially increased offerings of existing courses; developed new courses with more underway; strengthened midlevel and advanced training; and provided strategic support for Agency goals through training such as personal search, risk management, defensive tactics, and intelligence. An exploding workload, increasingly complex trade regulations, the expanded use of technology in enforcement tools, and the rising demands in guarding the Nation's borders while protecting the rights of its citizens were factors driving the need for improved training of personnel.



**Strategic recruitment has  
resulted in a diverse workforce  
at Customs.**





**New Customs employees undergo  
extensive firearms training.**

## Strategic Challenges/Goals/Objectives

- ◆ Implement a National Training Plan emphasizing training investment priorities, career development for mission-critical occupations, and strategic use of training to meet Customs performance goals.
- ◆ Strengthen firearms and tactical training for 13,000 armed officers and use judgement simulation systems and safety equipment to enhance realism and achieve effectiveness.
- ◆ Establish an infrastructure for nationwide distance learning as a critical delivery mechanism to reach a widely dispersed, highly divergent workforce. Distance learning methods will enable Customs to deliver training on site and on demand, avoiding travel costs and time away from operations.
- ◆ In response to Customs human capital crisis, develop a succession management system to ensure a management pipeline of well-qualified individuals to positions of greater responsibility.

## Accomplishments and Highlights

Customs developed and implemented an annual National Training Plan (NTP) in accordance with the Customs Strategic Plan to help Customs maintain readiness to meet the challenges of a changing workplace. The primary objective of the NTP is to align Customs central training resources with the highest priority training needs. The NTP established a solid foundation for our baseline requirements and was successful in investing in technology to accelerate distance learning, expanding the in-service firearms and defensive tactics training programs, and leveraging opportunities to save costs.

As a result of this planning process, Customs has published Standard Curriculum Frameworks (SCFs) that outline occupations' core training at various career levels. The SCFs help guide managers and employees in reviewing and charting available training opportunities and serve as a foundation for building comprehensive career development systems for Customs.

Training standards and policies were introduced throughout the OTD to ensure that Customs employees are getting consistent, standardized training presented in a professional manner. Standards are being used as a baseline for evaluating effectiveness and determining future improvements. The International Association for Continuing Education and Training (IACET) approved the Customs Academy to award continuing education units for all courses that meet the IACET requirements.

During FY 2001, Customs collaborated with the Department of Justice and FLETC to secure funding for a new port of entry that will be used for realistic training in interagency programs. Field training, using an actual working environment, provides the opportunity to further enhance these skills. A total of 906 students were trained at working ports of entry in courses such as Passenger Interview and Vehicle Inspection Training, Rover Training, Asset Forfeiture Training, and Southern Border Interdiction. Data show that, during or as a direct result of

the training, students have used course-developed skills to seize large quantities of illegal drugs and drug money.

A primary focus in FY 2001 was the delivery of Customs-wide Firearms and Tactics programs initiated the previous year and the development of several new officer safety initiatives. The National Firearms Training Program expanded an electronic database to manage all firearms qualification information and enhance accountability, standardized firearms, and defensive tactics field delivered training into a national database to enable control, oversight, and documentation. Customs developed an Officer Safety Incident Review Program for use in conducting trend analysis on use of force events to direct tactical training, doctrine, and policy. OTD also developed a new Defensive Tactics Instructor Certification Program creating a cadre of defensive tactics instructors to provide field instruction to 13,000 armed Customs Officers. The design of a state-of-the-art, advanced, in-service training facility in West Virginia was initiated this year to further enhance the professional development of Customs Officers.

Customs increased supervisory and mid-level managers' training, delivering 12 two-week Customs Supervisory Seminars to meet the requirement for all new supervisors to receive training within 60 days of appointment. The first Customs Leadership Institute (CLI) at Columbia University was completed for senior managers who aspire to executive positions and a second CLI class was launched. A CLI Alumni Program was established and CLI alumni were trained to teach Customs mid-level managers. Customs integrated risk management concepts into all leadership training programs; provided training programs for management orientations to Customs for executive communications training, and for experienced managers dealing with change.

Customs made advancements in building the capability to provide cost-effective distance learning programs. OTD chaired the Distance Learning Board which established a Distance Learning Strategic Plan; made business cases for all distance learning investments; developed a procedure manual, "Distance Learning Client Guide to Broadcast Preparation;" implemented a computer-based training (CBT) certification test for the Personal Search Handbook which was successfully completed by 8,500 Inspectors. OTD produced satellite broadcasts, CD-ROMs, CBT, e-learning and video programs, and completed an e-learning pilot at multiple sites.

The Customs Tuition Program (CTP) continued into its second year as a means for Customs to invest in the continued education of its employees who are committed to improving their contributions to Customs and their professional development. OTD improved the process, developed an electronic database, and approved tuition assistance to 777 Customs employees in FY 2001. To attract new employees of high potential, OTD designed and delivered the first National Intern Program.

### **Initiatives to Improve Support for Customs Mission**

- ◆ In partnership with HRM, OTD is implementing a Succession Management System to ensure that the management pipeline is filled with qualified slates of candidates for management and executive positions. An executive-level Corporate Board will manage the

recruitment, selection, development, and evaluation processes that OTD and HRM established for the Management Development Program and the Executive Development Program. Executive Development activities will meet Office of Personnel Management (OPM) requirements for successfully demonstrating Executive Core Qualifications that are needed for entry into the Senior Executive Service.

- ◆ Customs is building a field training network to strengthen the training focus in the field and implement national training programs. In FY 2001, OTD held a national conference for Training Officers and Training Coordinators, created and filled new field training positions in key cities, and initiated regular communication tools to the field training network.
- ◆ To help continuously improve Customs training, OTD is implementing the National Training Evaluation Program (NTEP) and the Professional Trainer Development Program (PTDP). The NTEP centralizes training feedback throughout Customs. The feedback data are turned into reports, analyzed, and distributed to appropriate parties, then used to help improve course materials and instructor skills. PTDP will provide training and certification to all Customs personnel who deliver instruction.

## FINANCIAL MANAGEMENT

### Overview

Customs strives to be a leader in financial management by providing high quality, cost-efficient financial management services through customer involvement and modern, integrated financial systems. The goal of financial management is to develop and promote more effective and efficient methods to obtain and manage financial data, resources, and capital assets that are consistent with the needs of customers and stakeholders.

One important function to achieve this goal is safeguarding and properly accounting for revenue. This involves clearly identifying amounts owed the U.S. Government under laws and regulations, collecting these amounts, resolving discrepancies that arise in the revenue process, and accurately reporting the status of revenue from all sources. Another important function is to acquire and effectively manage the assets needed to accomplish Customs Frontline mission. This includes translating workloads and requirements into budget requests for needed resources; allocating and distributing funds after resources are made available; acquiring and distributing personnel, goods, and services that are used to accomplish Customs mission; managing and paying for those goods and services; and, reporting on the costs and use of personnel, goods, and services.

### Challenges/Strategies

One major new challenge facing Customs financial operations in FY 2001 was the impact of the terrorist attacks on the United States. As a result of the tragic events of September 11<sup>th</sup> and the total loss of the New York Customs house at 6 World Trade Center, Customs had to deal with the problem of re-establishing operations in New York. This included the tasks of finding new working space, equipment, and supplies for over 760 Customs employees, and planning for continuity of operations for a port that processes almost a fifth of all entries

nationwide. The task of planning for the future, in light of major new priorities in combating terrorism, involved obtaining and putting into place the resources for fighting this new war.

Customs also faces a number of continuing challenges in the financial arena. One is to improve its systems capabilities for accounting and reporting of financial information to meet the high standards now expected of Federal Government entities. This will entail a more effective use of financial information in conjunction with budget and cost information to help managers make better decisions. In addition, Customs will need to use technology and advances in information management to improve financial management services to customers and stakeholders. A final major challenge is that the continuing explosive growth of U.S. trade with other countries, often stimulated by international trade agreements, has increased Customs workload and the complexity of its operations. This in turn has made our role of collecting revenue and ensuring compliance with trade laws more complex.

Strategies to address these challenges usually involve efforts to modernize and improve our technology, systems, and processes. We continue to pursue the enhancement of existing systems and the development of new systems and procedures that maximize the use of electronic commerce in accomplishing financial transactions. We also have placed greater emphasis on the training and revamping of our workforce to accompany anticipated changes in technology and equipment. We have made serious progress in developing a fully integrated, automated system to process financial accounting, procurement, and asset oversight transactions to ensure the reliability and accuracy of our financial system data. We anticipate that the improvement of our financial systems will parallel the modernization of Customs commercial systems to provide a seamless approach to accurate recording and reporting of revenue and other financial data.

### **FY 2001 Initiatives**

In FY 2001, Customs made progress in implementing a number of major initiatives in the area of financial management. Some of the more significant were:

- ◆ Customs proceeded with the acquisition of critical resources for its Modernization Program. Funding was secured for modernization efforts including development of the new Automated Commercial Environment and the International Trade Data System. Funds were also acquired for maintenance of the existing Automated Commercial System during the transition to more modern systems. Congress approved essential funding to proceed with a performance-based contract award for the \$1.5 billion Modernization Program. This procurement utilized the Internet and streamlined procedures to award a multi-year contract, within a record time of 4 months, and without protest.
- ◆ Innovative approaches were also taken in awarding several major contracts, in addition to the Modernization contract. A 10-year contract was competitively negotiated under an innovative fee structure to manage and dispose of seized/forfeited real property in support of Treasury's participating law enforcement bureaus. Additional savings and program efficiencies were secured through the award of a new Customs National Uniform Program contract.



**Strong financial management  
is a basis for agency  
effectiveness.**

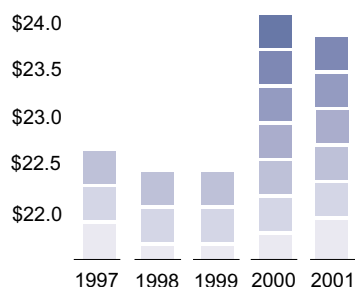
- ◆ In addition to securing critical resources for beginning the Modernization Program, Customs also established a new approach to acquisition planning. This approach established a Non-Information Technology Capital Assets Review Board and business case analysis that improves justification of all Customs resource requests and internal planning.
- ◆ Customs also promoted e-commerce initiatives in contract bid-solicitation, payments, collections, and surety bonds. For example, 84 percent of vendor payments and 98 percent of employee travel transactions were made electronically, and 14 new airlines used the Automated Clearinghouse. Customs also promoted the issuance of contract solicitations via websites such as the Customs-Net and Federal Business Opportunities, and expanded the use of Internet websites by Customs Purchase Cardholders.
- ◆ Customs strengthened its cash management controls through the expansion of the Electronic Collection System, now operational at 36 port locations.
- ◆ Customs is planning to use off-the-shelf software developed by SAP to replace many current accounting and financial reporting functions. The Customs Investment Review Board approved the SAP Business Case Analysis and implementation plan, allowing work to begin on the first phase of the SAP project.
- ◆ Customs initiated a comprehensive user fee review project to revise the Consolidated Omnibus Budget Reconciliation Act (COBRA) legislation and set user fees, instituted under the Act, at levels that will recover the full cost of services provided by Customs.
- ◆ In February 2001, Customs again received an unqualified opinion on its prior year financial statements.
- ◆ Customs completed a review of infrastructure needs at 197 Northern and Southwestern border facilities and prepared a comprehensive report that was forwarded to Congress.

### Financial Results and Performance Measures

Customs administers the U. S. Trade Program by enforcing the laws governing the flow of merchandise or commerce across U. S. borders, and assessing and collecting duties, excise taxes, fees and penalties on imported and exported goods and services. In FY 2001, Customs collected \$23.8 billion in gross revenue; \$22.3 billion of this represented custodial revenue of which \$21.2 billion was returned to Treasury to fund other Federal agency programs. Of the remaining \$1.1 billion, Customs returned \$45.3 million to the Governments of Puerto Rico and the U. S. Virgin Islands, transferred \$84.2 million to other Federal agencies, used \$932.3 million to fund refund and drawback payments for trade activity, and retained \$49.7 million to offset various program costs allowed by law and regulation. Duty collections decreased \$900 million, followed by increases in excise taxes of \$155 million and in user fees of \$31 million and a decrease in fines and penalty collections of \$46 million, with the remaining items resulting in an increase of \$16 million.

The net decrease in duties is largely attributable to the decrease in the importation of capital equipment such as computers and computer accessories, semiconductors and other electrical equipment. The remaining difference is primarily associated with industrial supplies and

**Gross Revenue Collections**  
(in billions)





materials such as crude oil products, and automotive vehicles, parts and engines. Fines and penalty collections returned to a more typical level in FY 2001, after a temporary increase in FY 2000.

**Goal:** Increase total revenue collections through electronic means to at least 75 percent.

**Measured Results:** Customs revenue collections through electronic means reached 86.1 percent.

The accompanying chart depicts the dollar amount of collections received via electronic means as a percentage of total collections. Customs collected \$22.3 billion in FY 2001 in tariff duty, user fees, Internal Revenue Service (IRS) excise taxes, and other assessments. In an effort to improve efficiency and reduce associated costs of the collection/deposit process, Customs has encouraged the trade community and other government agencies to use electronic means when making payments or transfers. Electronic payments made to Customs are credited to Treasury accounts faster than cash and checks. Much of the manual process associated with cash and check processing does not occur when funds are received electronically. Customs uses several different electronic transfer systems. The Automated Clearing House (ACH) is used to transfer payments from the trade community directly to Customs. The On-Line Payment and Collection System is an electronic system used by governmental agencies and bureaus to transfer funds within the government. Fedwire is used primarily to receive payments of IRS excise taxes and credit card transactions. The total amount of collections received via electronic means during FY 2001 was approximately \$20.8 billion, \$19.1 billion of which was via ACH.

**Goal:** Increase the percentage of payments made through electronic funds transfers (EFT). At least 80 percent of commercial invoice payments, 95 percent of travel payments, and 98 percent of salary payments should be made by EFT.

**Measured Results:** All of the goals were exceeded, with 83.8 percent of commercial invoice payments, 97.8 percent of travel payments, and 99.3 percent of biweekly salary payments made by EFT.

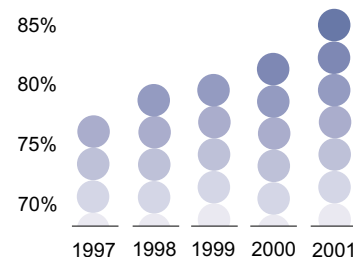
The accompanying chart identifies an incremental increase from FY 2000 to FY 2001 in the payments made by EFT. Public Law 104-134, the Debt Collection Improvement Act of 1996, requires federal payments to be made electronically, however, it also allows for certain exceptions under which the electronic requirement can be waived. Efforts will continue to further incremental increases in payments made electronically, but reaching a 100 percent payment rate is unlikely. Any additional increases in the number of EFT payments issued by Customs will still result in increased efficiencies in processing time and reductions in associated costs.

## INFORMATION TECHNOLOGY

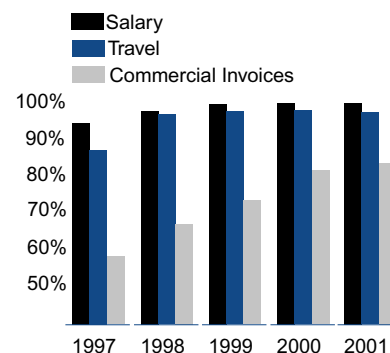
### Overview

The Customs Office of Information and Technology (OIT) provides integrated, comprehensive technical support to Customs mission. OIT provides information technology, research and development, scientific and forensic laboratory services, and manages the Customs

Percentage of Collections Received  
via Electronic Means



Payments Made by  
Electronic Funds Transfer





**Technology is a key to  
Customs future.**

Modernization Program. OIT also manages Customs Computer Security Program; establishes automated interfaces between Customs and trade participants, and other government agencies; and provides reference library and electronic information resources.

### **Strategic Challenges and Goals/Objectives**

OIT is focused on enhancing national security by detecting the illegal movement of terrorists, their weapons and their money, while assisting in the rapid movement of legal trade through our ports of entry, using as appropriate new and emerging technology.

The organization is also focused on performing high-tech, trade-related scientific testing of commodities, sometimes before they leave a foreign port and once they cross the borders of the United States. Specific areas of focus include: classification, value, country of origin, admissibility, and transshipment. Major areas of trade analysis include textiles, food, sugar and bulk chemicals.

### **Customs Modernization**

Customs first Modernization project is ACE, which will replace the current trade import system. ACE will provide an integrated, fully automated information system to enable the efficient collection, processing, and analysis of commercial import and export data. ACE will transform how Customs processes goods and merchandise imported into the United States. ACE will expedite the legal flow of goods so that legitimate trade can move more easily across the borders. This will allow Customs to focus its resources on enforcement, and to focus on anti-terrorism and other illegal activities. The challenge is to efficiently process an ever-increasing volume of trade with enforcement confidence.

With Modernization, Customs Inspectors will have state-of-the-art communications and mobile technologies at their command. They will be prepared to make good decisions anywhere, anytime. Integrated systems and interoperable tools will support effective operations. Information technology will multiply the impact of Customs personnel by helping them work more efficiently.

Modernization is intended to empower the guardians of the Nation's Frontline with the best information and the best technology to protect citizens from security, health, and safety risks, sustain the vitality of our economy, and maximize the use of Customs resources.

### **Accomplishments and Highlights**

OIT accomplished several key milestones this year.

- ◆ The laboratory system attained accreditation of all eight Laboratories with the International Standards Organization Guide 25 Accreditation. The Customs Laboratories are the first federal laboratory system to receive this professional accreditation system-wide.
- ◆ In March 2001, Customs achieved its first success in reaching the Software Engineering Institute's Capability Maturity Model® for Software (CMM) levels of excellence. The Automated Targeting System (ATS) and National Customs Automation Program (NCAP) were officially assessed at CMM Level 2 for software process maturity—thus becoming

the first Customs projects ever to achieve this rating. Moreover, the project teams accomplished this in 18 months versus the industry average of 2 to 4 years.

- ◆ On April 27, 2001, Customs accomplished a major milestone in its efforts to modernize its business systems with award of the Customs Modernization Systems Integration Contract to the e-Customs Partnership (e-CP). Working with the Customs Modernization Office, Customs subject matter experts, and the trade community, the e-CP will help design, build and deploy new information systems.
- ◆ In response to the September 11<sup>th</sup> attacks on the twin towers at the World Trade Center, the Disaster Recovery Operations Center was mobilized; the command and control center quickly assessed computer and telecommunications needs of displaced Customs employees. At the same time, the Security Incident Response Center dramatically increased all network-monitoring efforts.

Working around-the-clock, OIT staff acquired new equipment, planned the installations, and configured laptops for OI agents working with the FBI to assist in the overall investigation. Within 48 hours of the tragedy, OIT had acquired, configured, and delivered almost 200 computer systems and cell phones to the New York area. Thousands of pieces of equipment were ordered: desktop computers, local area networks, phone switches, and hundreds of telephones.

Support was immediately provided to OIT's New York Laboratory, which was located at 6 World Trade Center. A Continuity of Operations Plan was in place which simplified efforts to locate an alternate facility for displaced workers. OIT staff worked with OF Asset Acquisition Management staff, and an alternate facility was quickly identified. A lease agreement was formalized that first week. In addition to these efforts, numerous OIT staff worked around-the-clock to acquire new equipment, plan installations, and configure laptops.

In addition to these major accomplishments, OIT:


- ◆ Significantly improved the reliability and performance of the ACS and associated infrastructure in support of the trade community and Customs operations.
- ◆ Deployed a state-of-the-art frame relay network, expanding Internet and Intranet access for Customs users.
- ◆ Developed an Enterprise Architecture considered a "Best Practice" by GAO.
- ◆ Developed and initiated a significantly improved information technology strategic planning process which is tightly coupled with Customs strategic planning, investment management, and budget processes.
- ◆ Delivered a new electronic mail platform (Lotus Notes) to approximately 3000 Customs users in the Washington, DC, area.
- ◆ Is implementing a program for a disaster recovery capability for the Customs data center.
- ◆ Is actively engaged in an Enterprise Process Improvement Program (EPIP) to modernize its IT products and improve its IT processes. To guide that process improvement work, Customs has adopted the Capability Maturity Model<sup>®</sup> (CMM<sup>®</sup>) of the Software Engineering Institute (SEI).

## Federal Managers' Financial Integrity Act (FMFIA) Summary

Customs has evaluated its management controls and financial management systems for the fiscal year ending September 30, 2001, as required by the FMFIA of 1982. In addition to its internal evaluations, Customs also relied upon audits conducted during the year by the Office of Inspector General and the General Accounting Office in its assessment process.

## Annual Assurance Statement for FY 2001

*Due to current deficiencies in the quality and adequacy of data provided by Customs financial accounting and reporting systems, I cannot provide reasonable assurance that Customs overall controls and financial management systems are in conformance with standards prescribed by the Comptroller General of the United States. Based on the current status of previously identified weaknesses, we do not have reasonable assurance that the objectives of Section 4 of the FMFIA have been achieved, namely the conformance of our fiscal and administrative systems to General Accounting Office principles and standards. In addition, I cannot state compliance with the requirements of the Federal Financial Management Improvement Act (FFMIA). Customs financial management systems are not currently in compliance with Federal financial management systems requirements, applicable Federal accounting standards, or the United States Government Standard General Ledger at the transaction level. However, with the exception of the material weaknesses described in this section, I can provide reasonable assurance that the general internal control objectives under Sections 2 and 4 of the FMFIA have been achieved. With regard to Customs performance data information, I can state with reasonable assurance that the measures reported as part of our performance plan are reliable and accurate. Our internal reviews have not revealed problems in data compilation, verification, or validation. Customs has put in place formal operating procedures for evaluating data validity and quality to ensure adherence to proper statistical standards.*



Customs continues to support the objectives of FMFIA and FFMIA in promoting greater accountability throughout government. Effective internal controls have been a priority initiative as evidenced by the Self-inspection Program established over the last several years. Of the 115 internal control weaknesses identified under Section 2 since inception of the program, 113 have been corrected and closed, leaving only two unresolved as of September 30, 2001. The two unresolved items are from prior years and their correction primarily involves systems development and security issues. Of the 35 accounting systems non-conformances identified since the beginning of the program, one remains unresolved. The solutions for this weakness involves installation of complex, automated systems or significant modification of existing systems.

No new Section 2 or Section 4 weaknesses were reported this year. As demonstrated by the number of weaknesses reported and closed since we have been reporting under FMFIA, Customs has made significant progress in addressing and resolving management controls issues.

In our efforts to address our few remaining weaknesses, we are at a point where a consistent stream of external support and resources is crucial to the success of our corrective action plans. The magnitude and scope of our systems deficiencies require comprehensive solutions and major resource commitments. We have received initial resources to begin our action plans to correct these deficiencies. Contract assistance has been obtained to plan and implement these long-term initiatives. We are continuing to seek the appropriated funds necessary to move toward completion of our plans. At the same time, we continue to utilize compensating procedures and controls to assure the integrity of our financial operations.

We note that Customs continues to report a material weakness concerning our capability for backup of our computer systems in case of disaster or other emergency. We are in the process of negotiating an agreement with a contractor to provide such backup through a commercial recovery facility. However, with the exception of the risks which will continue until this facility is in place, we consider our continuity of operations planning in critical areas sufficient to reduce risks to reasonable levels.

## SECTION I: OPEN MATERIAL WEAKNESSES

AS OF SEPTEMBER 30, 2001:

FMFIA Section* (2, 4A, or 4F)	Bureau and Control Number	Title of Material Weakness:	Description of Material Weakness:	Major Milestones		Milestone Dates	
				a) Short Term	b) Long Term	Original Due Dates	Current Due Dates
2	CS-94-02	Inability to timely restore critical systems; lack of a disaster recovery plan.	Deficiencies impair Customs ability to respond to a disruption in business operations.	a) Short term: <ul style="list-style-type: none"><li>Completed study and implementation plan for transition to a commercial recovery facility (CRF).</li><li>Sign contract with CRF vendor.</li><li>Complete update of the Business Impact Analysis.</li><li>Complete population of the Business Impact Analysis software tool. This will enable annual updates to the Business Impact Analysis.</li><li>Finish upgrade of telecommunications resources by migration from a Treasury packet-switched network to a commercial frame relay network at remaining handful of small, isolated locations.</li></ul> b) Long term: <ul style="list-style-type: none"><li>Establish an operational hot site capability at the CRF.</li></ul>	6/30/01  ✓ 1/15/02 ✓ 12/31/01 ✓ 12/31/01  9/30/02   12/31/02	✓ 9/30/01	
2	CS-95-01	Inappropriate access to ADP files, inadequate control of emergency change control process, and inappropriate separation of duties.	Access capabilities and control mechanisms for critical applications and major support systems need improvement.	a) Short term: <ul style="list-style-type: none"><li>Implemented revised procedures governing emergency change controls.</li><li>Began pilot of Dimensions change control tool.</li><li>Hired contract personnel to enable the Information Systems Security Branch (ISSB) to assume application security functions for TECS/SEACATS.</li><li>Completed draft risk assessments at 5 CMCs.</li><li>Security accreditations of TECS, SEACATS, and ACS were signed.</li><li>Implemented a formal procedure for removing physical and systems access for departed contractor personnel.</li><li>ISSB assumed application security functions</li><li>Complete pilot of Dimensions change control tool and develop plan for migration of applications/changes.</li><li>Accredit the legacy administrative systems.</li></ul> b) Long term: <ul style="list-style-type: none"><li>Migration to Dimensions change control tool.</li></ul>	6/30/00  4/01/01 8/01/01  8/31/01 9/30/01  1/01/01 3/31/00  6/31/02  12/31/02	✓ 9/13/00  ✓ 6/11/01 ✓ 8/16/01  ✓ 8/28/01 ✓ 9/17/01  ✓ 10/31/01 ✓ 10/31/01 ✓ 10/31/01	

\* Section 2 = Internal Control Material Weaknesses

Section 4A = Administrative Systems' Material Non-Conformances

Section 4F = Fiscal Systems' Material Non-Conformances

✓ = Completed



Attachment A

**SECTION I: OPEN MATERIAL WEAKNESSES**

AS OF SEPTEMBER 30, 2001:

FMFIA Section* (2, 4A, or 4F)	Bureau and Control Number	Title of Material Weakness:	Description of Material Weakness:	Major Milestones		Milestone Dates													
				a) Short Term	b) Long Term	Original Due Dates	Current Due Dates												
4A	CS-93-01	Financial Systems	Customs Financial Systems do not provide complete and accurate information for financial reporting and for preparation of audited financial statements.	a) Short term: <ul style="list-style-type: none"><li>Completed acceptance testing of SAP/R/3 software that has been chosen to replace the Customs General Ledger and integrate with supporting administrative systems.</li><li>Awarded Customs Modernization Prime Contract to the e-Customs Partnership (eCP).</li><li>Implement Phase 1 of the software deployment of the SAP/R3 software package.</li><li>Negotiated initial three tasks of Modernization Prime Contract.</li></ul> b) Long term: <ul style="list-style-type: none"><li>Implement full software deployment of the SAP-R/3 software package.</li></ul> Develop and implement the aspects of the Customs Modernization Program that will provide a fully integrated accounting system. This will include an accounts receivable subsidiary ledger to be electronically interfaced to the core accounting system and the general ledger. <ul style="list-style-type: none"><li>Implement the initial version of the Accounts Receivable Subsidiary Ledger and a Periodic Based National Statement. (ACE Increment 1)</li><li>Implement ACE Increment 2.</li></ul> <p>* This date is contingent upon receipt of funding for Releases 2 and 3 of the SAP implementation project.</p> <p>** New target dates are currently under development by the eCP contractor project team.</p>	5/01/01	✓6/01/01		✓4/27/01		4/01/02	10/30/01	✓10/30/01		10/01/04*		3/30/99	**		**

\* Section 2 = Internal Control Material Weaknesses

Section 4A = Administrative Systems' Material Non-Conformances

Section 4F = Fiscal Systems' Material Non-Conformances

✓ = Completed

Attachment A

**SECTION II: THE LIST OF MATERIAL WEAKNESSES****CLOSED DURING FY 2001:**

NONE REPORTED CLOSED

\* Section 2 = Internal Control Material Weaknesses

Section 4A = Administrative Systems' Material Non-Conformances

Section 4F = Fiscal Systems' Material Non-Conformances

\*\* Validation Process Used/Results Achieved: Indicate how you have determined that the desired results were accomplished, thereby eliminating the material weakness conditions.

**SECTION III: OPEN REPORTABLE CONDITIONS/SECOND TIER\* ISSUES**

AS OF SEPTEMBER 30, 2001:

Source	Title of Reportable Conditions/Second Tier Issues:	Description of Reportable Conditions/Second Tier Issues:	General Actions Being Taken	Remarks
OIG-01-045	Drawback	Drawback controls need to be strengthened.	Customs is streamlining operations by closing drawback units; conducting training for Chiefs and Specialists; completing a training manual for new employees; revising current Guidance to include policies regarding accelerated payment, drawback workstations, selected processing, compliance and penalties, and proof of export. There have been plans to merge at some point the Customs Self-inspection Worksheet with OIG reviews to ensure thorough evaluation is done.	Systematic testing in the CFO Audit by Customs and the OIG has not revealed significant discrepancies in processing of drawback claims.
OIG-01-045	Compliance Measurement	Compliance measurement programs need to be comprehensively implemented to identify the revenue gap and assess trade law compliance.	Customs has implemented a number of compliance measurement programs (CMPs), including a major CMP for formal entries over \$2000. The development of additional CMPs partly depends upon technology and additional funding.	The OIG wants CMPs wherever possible. The question is, are they all feasible?
OIG-01-045	In-bond Shipments	Controls over in-bond shipments need to be strengthened.	A number of Air Automated Manifest System fixes have been completed and more are being worked on. Customs Automated Forms Entry System is being piloted at several locations. This system provides Customs more data and in a more timely manner. Self-inspection worksheets are being used to verify that audits and exams are being done and results recorded. The draft In-Bond Handbook was sent to the field as guidance.	Improvements to controls over the in-bond process have been made over several years and more are underway or planned.
OIG-01-045	ADP Security	Entity-wide security program planning and management needs to be improved.	Customs has completed an agency-wide risk assessment; implemented Computer Security Officer positions; completed a new security-training program; accredited the TECS/SEACATS systems and the ACS system; and issued a new Security Policy and Procedures Handbook.	Corrective action in this area is essentially complete.
OIG-01-045	ADP Access Controls	Physical and logical access controls need to be improved.	Customs has adopted a new Security Policy and Procedures Handbook; has implemented a formal procedure for removing physical and systems access for departed contractor personnel; and has strengthened physical access controls and maintained these in a high state of readiness since the September 11 terrorist incidents.	Customs has addressed most of the OIG concerns raised in audits over the last several years.
OIG-01-045	ADP Change Controls	Software development and change controls need to be fully implemented for legacy applications and/or systems.	Customs has completed documentation of procedures governing infrastructure support activities; created a training capability within its system to allow users to train without harming real data in the system; documented policies and procedures governing OS 390 operations; and completed documentation of Customs ACS system.	The major remaining item is implementation of a new change control tool. Customs is working with a contractor on this.
OIG Draft Report on International Mail	Customs Processing of International Mail	Better controls, particularly in targeting of mail for inspection, could result in significant gains in revenue collection at Customs International Mail Branches.	Customs is conducting a revenue gap survey to measure lost revenue on informal entries in the international mail. The USPS is working with Customs to provide accurate data on international parcels for this survey. The target date for providing information to the OIG on this issue is March 2002.	An important aspect of corrective action will depend on the help Customs gets from the U.S. Postal Service.
Internal Review	Customs Badge and Credential Program	Existing procedures did not ensure the required level of accountability over badges and credentials and the inventory system was inadequate to accurately account for the number on hand.	Customs put into place an action plan to do a national inventory of badges/credentials, rewrite the controlling directive and self-inspection worksheet, rewrite/improve standard operating procedures, and reconcile discrepancies resulting from the inventory. The plan is due to be completed by 1/30/02.	Completion of the action plan should reduce program risks to acceptable levels.

\* "Reportable Conditions" refer to issues the external auditors have raised as "Reportable Conditions," but are not "material" in nature.

\* "Secondary Issues" refer to the bureau self-identified issues (non-material weaknesses) that warrant the bureau's attention and/or that are deemed serious enough that the Department needs be notified.



# **Customs Fiscal Year 2001 Financial Statements**

## Department of the Treasury, United States Customs Service

**Consolidated Balance Sheet**

As of September 30, 2001 and 2000

(Dollars in Thousands)

	2001 (Unaudited)	2000 (Audited) (Restated)
<b>ASSETS (Note 2)</b>		
Intra-governmental Assets		
Fund balance with Treasury (Note 3)	\$ 2,609,073	\$ 1,892,466
Accounts receivable (Note 5)	11,839	18,727
Advances and prepayments	22,765	18,409
Total Intra-governmental Assets	<u>2,643,677</u>	<u>1,929,602</u>
Cash and other monetary instruments (Note 4)	24,749	134,043
Accounts receivable, net (Note 5)	66,728	71,415
Duty and trade related receivables, net (Note 6)	900,852	948,514
Advances and prepayments	13,850	14,615
Inventory and related property (Note 7)	42,983	41,524
Property, plant and equipment, net (Note 8)	610,343	474,095
<b>TOTAL ASSETS</b>	<u><u>\$ 4,303,182</u></u>	<u><u>\$ 3,613,808</u></u>
<b>LIABILITIES (Note 9)</b>		
Intra-governmental Liabilities		
Accounts payable	\$ 50,529	\$ 50,921
Due to the General Fund	1,277,336	1,060,504
Employer benefits and taxes	17,732	15,268
Advances from others	13,800	14,127
Total Intra-governmental Liabilities	<u>1,359,397</u>	<u>1,140,820</u>
Accounts payable	114,371	121,385
Refunds payable (Note 10)	121,087	223,516
Advances from others	75,624	82,226
Payroll and benefits (Note 11)	200,368	180,020
Workers' compensation	271,621	224,294
Capital leases and software license agreements (Note 13)	118,872	286
Injured domestic industries (Note 14)	247,385	--
Other (Note 12)	17,496	16,604
<b>TOTAL LIABILITIES</b>	<u>2,526,221</u>	<u>1,989,151</u>
Commitment and contingencies (Note 15)		
<b>NET POSITION (Note 16)</b>		
Unexpended appropriations	856,645	688,566
Cumulative results of operations	920,316	936,091
<b>TOTAL NET POSITION</b>	<u>1,776,961</u>	<u>1,624,657</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 4,303,182</u></u>	<u><u>\$ 3,613,808</u></u>

The accompanying notes are an integral part of these statements.

*See Accompanying Accountants' Review Report.*

**Department of the Treasury, United States Customs Service**  
**Consolidated Statement of Net Cost**  
**For the Years Ended September 30, 2001 and 2000**  
**(Dollars in Thousands)**

	2001 <u>(Unaudited)</u>	2000 <u>(Audited)</u>
<b>COSTS:</b>		
Program: PASSENGER PROCESSING		
Intra-governmental costs	\$ 197,604	\$ 170,936
Costs with the Public	<u>529,024</u>	<u>481,842</u>
Total Costs	726,628	652,778
Less earned revenue	<u>(46,219)</u>	<u>(51,239)</u>
Net Program Costs	<u>680,409</u>	<u>601,539</u>
 Program: TRADE COMPLIANCE		
Intra-governmental costs	283,996	247,944
Costs with the Public	<u>760,314</u>	<u>698,843</u>
Total Costs	1,044,310	946,787
Less earned revenue	<u>(66,426)</u>	<u>(74,322)</u>
Net Program Costs	<u>977,884</u>	<u>872,465</u>
 Program: OUTBOUND		
Intra-governmental costs	27,294	24,170
Costs with the Public	<u>73,071</u>	<u>68,195</u>
Total Costs	100,365	92,365
Less earned revenue	<u>--</u>	<u>--</u>
Net Program Costs	<u>100,365</u>	<u>92,365</u>
 Program: ENFORCEMENT		
Intra-governmental costs	264,611	228,340
Costs with the Public	<u>708,415</u>	<u>739,264</u>
Total Costs	973,026	967,604
Less earned revenue	<u>(61,892)</u>	<u>(65,013)</u>
Net Program Costs	<u>911,134</u>	<u>902,591</u>
 NET COST OF OPERATIONS (Note 17)	<u>\$ 2,669,792</u>	<u>\$ 2,468,960</u>

The accompanying notes are an integral part of these statements.

*See Accompanying Accountants' Review Report.*



**Department of the Treasury, United States Customs Service**  
**Consolidated Statement of Changes in Net Position**  
**For the Years Ended September 30, 2001 and 2000**  
**(Dollars in Thousands)**

	2001	2000
	(Unaudited)	(Audited)
Net Cost of Operations	\$ 2,669,792	\$ 2,468,960
Financing Sources		
Appropriations used	1,206,968	1,006,938
Non-exchange revenue	1,275,116	1,277,954
Imputed financing sources	133,920	100,044
Donations	17	127
Transfers-in	39,963	47,306
Transfers-out	(24)	(10)
Loss on disposition of assets	(5,649)	--
Total Financing Sources	<u>2,650,311</u>	<u>2,432,359</u>
Net Results of Operations	(19,481)	(36,601)
Other/Prior Period Adjustments (Note 18)	<u>3,706</u>	<u>465</u>
Net Change in Cumulative Results of Operations	(15,775)	(36,136)
Increase (Decrease) in Unexpended Appropriations	<u>168,079</u>	<u>(35,385)</u>
Change in Net Position	152,304	(71,521)
Net Position-Beginning of Period	<u>1,624,657</u>	<u>1,696,178</u>
Net Position-End of Period	<u><u>\$ 1,776,961</u></u>	<u><u>\$ 1,624,657</u></u>

The accompanying notes are an integral part of these statements.

*See Accompanying Accountants' Review Report.*

Department of the Treasury, United States Customs Service

## Combined Statement of Budgetary Resources

For the Years Ended September 30, 2001 and 2000  
(Dollars in Thousands)

	2001 <u>(Unaudited)</u>	2000 <u>(Audited)</u>
Budgetary Resources (Note 19)		
Budget authority	\$ 2,701,235	\$ 2,283,788
Unobligated balance – beginning of period	1,039,166	1,104,112
Spending authority from offsetting collections earned	450,834	197,680
Adjustments	<u>80,785</u>	<u>521,345</u>
Total Budgetary Resources	<u>\$ 4,272,020</u>	<u>\$ 4,106,925</u>
Status of Budgetary Resources (Note 19)		
Obligations incurred	\$ 3,219,700	\$ 3,076,991
Unobligated balance available	399,540	357,355
Unobligated balance not available	<u>652,780</u>	<u>672,579</u>
Total Status of Budgetary Resources	<u>\$ 4,272,020</u>	<u>\$ 4,106,925</u>
Outlays		
Obligations	\$ 3,219,700	\$ 3,076,991
Less: Spending authority from offsetting collections and adjustments	(550,095)	(757,782)
Obligated balance – beginning of period	579,345	576,591
Less: Obligated balance, net – end of period	<u>(739,855)</u>	<u>(579,345)</u>
Total Outlays	<u>\$ 2,509,095</u>	<u>\$ 2,316,455</u>

The accompanying notes are an integral part of these statements.

*See Accompanying Accountants' Review Report.*

**Department of the Treasury, United States Customs Service**  
**Consolidated Statement of Financing**  
**For the Years Ended September 30, 2001 and 2000**  
**(Dollars in Thousands)**

	2001 <u>(Unaudited)</u>	2000 <u>(Audited)</u>
Obligations and Nonbudgetary Resources		
Obligations incurred	\$ 3,219,700	\$ 3,076,991
Less: Spending authority from offsetting collections and adjustments	(550,095)	(757,782)
Donations not in the budget	17	127
Imputed financing	133,920	100,044
Transfers-in (out)	39,939	47,296
Total Obligations As Adjusted and Nonbudgetary Resources	<u>2,843,481</u>	<u>2,466,676</u>
Resources That Do Not Fund Net Cost of Operations		
Change in amount of goods, services, and benefits ordered but not yet received or provided	(142,254)	19,512
Costs capitalized on the Balance Sheet	(195,107)	(178,084)
Financing sources that fund costs of prior periods	--	--
Total Resources That Do Not Fund Net Cost of Operations	<u>(337,361)</u>	<u>(158,572)</u>
Costs That Do Not Require Resources		
Depreciation and amortization	81,982	52,155
Inventory used in operations	38,349	58,480
Other	(11,924)	2,928
Total Costs That Do Not Require Resources	<u>108,407</u>	<u>113,563</u>
Financing Sources Yet To Be Provided (Note 20)	<u>55,265</u>	<u>47,293</u>
Net Cost of Operations	<u>\$ 2,669,792</u>	<u>\$ 2,468,960</u>

The accompanying notes are an integral part of these statements.

*See Accompanying Accountants' Review Report.*

## Department of the Treasury, United States Customs Service

## Statement of Custodial Activity

For the Years Ended September 30, 2001 and 2000

(Dollars in Thousands)

	2001 <u>(Unaudited)</u>	2000 <u>(Audited)</u> <u>(Restated)</u>
<b>SOURCES OF CUSTODIAL REVENUE AND COLLECTIONS</b>		
Revenue Received:		
Duty	\$ 19,655,323	\$ 20,555,901
User fees	735,685	705,051
Excise taxes	1,803,479	1,648,255
Fines and penalties	66,867	112,504
Interest	56,154	38,685
Other	7,815	9,024
Total Revenue Received	<u>22,325,323</u>	<u>23,069,420</u>
Less: Refunds and other payments (Note 21)	<u>(932,304)</u>	<u>(1,232,152)</u>
Net Revenue Received	<u>21,393,019</u>	<u>21,837,268</u>
Accrual Adjustment	<u>(178,874)</u>	<u>52,159</u>
<b>TOTAL CUSTODIAL REVENUE</b>	<u>21,214,145</u>	<u>21,889,427</u>
<b>DISPOSITION OF REVENUE RECEIPTS</b>		
Amounts Transferred:		
Treasury General Fund Accounts	21,213,847	21,676,179
U.S. Department of Agriculture	67,552	68,219
Retained by U.S. Customs Service	49,660	44,295
Other Federal agencies	16,694	65
Government of Puerto Rico	39,555	44,559
Government of the U.S. Virgin Islands	5,711	3,951
Accrual adjustment	(178,874)	52,159
<b>TOTAL DISPOSITIONS OF REVENUE RECEIPTS</b>	<u>21,214,145</u>	<u>21,889,427</u>
<b>NET CUSTODIAL REVENUE ACTIVITY</b>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of these statements.

*See Accompanying Accountants' Review Report.*

## Department of the Treasury, United States Customs Service

**Notes to Financial Statements****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Reporting Entity**

The U.S. Customs Service (Customs), with headquarters in Washington, D.C., was created in 1789 and is a bureau of the U.S. Department of the Treasury (Treasury). Customs is primarily responsible for administering the U.S. Trade Program and U.S. Narcotics Enforcement Program. These responsibilities are met by: (1) enforcing the laws governing the flow of merchandise or commerce across the borders of the United States, (2) assessing and collecting duties, taxes, and fees, on imported and other goods and services, and (3) enforcing drug-related and other laws and regulations of the United States on behalf of Federal agencies and/or in conjunction with various state, local, and other Federal agencies and foreign countries.

Substantially all of the duty, tax and fee revenues collected by Customs are remitted to various General Fund accounts, maintained by Treasury. Treasury further distributes these revenues to other Federal agencies in accordance with various laws and regulations. Customs transfers the remaining revenue (generally less than two percent of revenues collected) directly to other Federal agencies, the Governments of Puerto Rico and the U.S. Virgin Islands, or retains funds as authorized by law or regulations. Refunds of revenues collected from import/export activity are recorded in separate accounts established for this purpose and are funded through permanent indefinite appropriations. These activities reflect the non-entity, or custodial, responsibilities that Customs, as an agency of the Federal government, has been authorized by law to enforce.

Operating and other costs incurred resulting from the activities described above are funded principally through congressional appropriations on an annual, multi-year, and no-year basis. Accordingly, operating costs incurred are offset by appropriated funds that are recorded as financing sources or by reimbursable revenue, user fee revenue, or other financing sources. These operational activities are reflected in the entity accounts of Customs.

The Federal Account Symbols and Titles of Customs entity and non-entity accounts are presented in the Required Supplementary Information Section of this report.

**Basis of Accounting and Presentation**

The Government Management Reform Act of 1994 (GMRA) requires executive agencies, including Treasury, to produce audited financial statements for all its activities and funds. In previous years, including Fiscal Year 2000, the Director of the Office of Management and Budget (OMB) included Customs in their designation of agencies required to have financial audits performed as provided by GMRA. For Fiscal Year 2001, OMB granted a request to remove Customs from the OMB required audit list. In place of an audit, the Treasury Office of Inspector General contracted with an independent public accounting firm to conduct a review of Customs Fiscal Year 2001 statements.

These financial statements are provided to meet the requirements of the GMRA and have been prepared from Customs accounting records in conformity with generally accepted accounting principles (GAAP). GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which was designated the official accounting standard-setting body of the Federal Government by the American Institute of Certified Public Accountants. The statements consist of the consolidated balance sheet, the consolidated statement of net cost, the consolidated statement of changes in net position, the combined statement of budgetary resources, the consolidated statement of financing, and the statement of custodial activity, as prescribed by OMB Bulletins No. 97-01, as amended, and No. 01-09, which provide the statement form and content requirements. The Fiscal Year 2000 amounts reported on the consolidated balance sheet have been restated to conform to form and content guidance included in OMB Bulletin No. 01-09. These amounts were

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not corrected or adjusted to reflect any prior period or subsequent events. The restatement is a result of financial statement presentation changes.

Certain amounts on the consolidated statement of net cost for Fiscal Year 2000 have been reclassified from intra-government costs to costs with the public. The total costs for each program did not change. Also, certain amounts on the statement of custodial activity for Fiscal Year 2000 have been restated for presentation purposes due to a change in Fiscal Year 2001 reporting of non-exchange revenue. The same amount has been reclassified from appropriations used to non-exchange revenue on the consolidated statement of changes in net position. These amounts were not corrected or adjusted to reflect any prior period or subsequent events.

While these financial statements have been prepared in accordance with the formats prescribed by OMB, they are different from the financial reports used to monitor and control budgetary resources, which are also prepared from Customs accounting records.

These financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that payment of liabilities other than for contracts can be abrogated by the sovereign entity.

Customs financial statements with respect to the consolidated balance sheet, the consolidated statement of net cost, and the consolidated statement of changes in net position are reported using the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. Customs combined statement of budgetary resources is reported using the budgetary basis of accounting. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. It generally differs from the accrual basis of accounting in that obligations are recognized when new orders are placed, contracts awarded, and services received, that will require payments during the same or future period. Customs statement of financing reconciles differences between the budgetary and accrual bases of accounting. Customs non-entity revenue and refunds are reported on the statement of custodial activity using a modified cash basis. With this method, revenue from cash collections are reported separately from receivable accruals, and cash disbursements are reported separately from payable accruals.

### **Assets and Liabilities**

Intra-governmental assets and liabilities result from activity with other Federal agencies. All other assets and liabilities result from activity with parties outside the Federal government, such as domestic and foreign persons, organizations, or governments.

### **Fund Balance with Treasury**

Entity fund balances with Treasury are the amounts remaining as of fiscal year-end from which Customs is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law. Non-entity fund balance with Treasury represents funds available to pay refunds and drawback claims of duties, taxes and fees; and, other non-entity amounts to be distributed to General Fund and other Federal accounts in a future period.

### **Cash and Other Monetary Instruments**

Entity Cash represents imprest fund balances. Imprest fund balances remaining at September 30, 2001, relate to amounts available to support investigative operation activity. Undeposited collections represents monies to be distributed in a future period. A timing difference occurs when cash is received and applied to a specific revenue type in one period, and the deposit and distribution of funds occurs in a future period. Monetary instruments are held by Customs in lieu of an

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importer/broker filing a surety bond. Corresponding liabilities are recorded for amounts expected to be allocated in future periods to Federal agencies.

### **Accounts Receivable**

Intra-governmental accounts receivable represent amounts due from Federal agencies. These receivables are expected to be fully collected. Accounts receivable from reimbursable services and user fees represent amounts due from non-federal sources for services performed. These receivables are net of amounts deemed uncollectible which are determined by considering the debtor's current ability to pay, the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity.

### **Duty and Trade Related Receivables**

Accounts receivable consist of duties, user fees, fines and penalties, refunds and drawback overpayments, and interest associated with import/export activity which have been established as a legally enforceable claim and remain uncollected as of year-end. These receivables are net of amounts deemed uncollectible which were determined by considering the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity. Customs accounting policy for non-entity receivables is described in more detail in Note 6, Duty and Trade Related Receivables, Net.

### **Advances and Prepayments**

Intra-governmental advances and prepayments consist of amounts paid to Federal agencies prior to Customs receipt of goods and services. All other advances and prepayments consist of employee travel and salary advances, prepaid rent, advances to grantees, and advances relating to certain investigative activities.

### **Inventory and Related Property**

Inventory consists of aircraft and marine parts and materials to be consumed in Customs operations. Aircraft parts and materials are recorded at average unit cost, and marine parts and materials are recorded using the First-In-First-Out valuation method. Both methods approximate actual acquisition costs. Disclosures are also made for seized property and currency resulting from enforcement activities. These items are not considered assets of Customs and are not reported as assets in Customs financial statements; however, Customs has a stewardship responsibility until the disposition of the seized items are determined, i.e., judicially or administratively forfeited or returned to the entity from which it was seized. If forfeiture occurs, the seized property and currency become assets of the Treasury Forfeiture Fund, or in the case of prohibited items, such as counterfeit goods, narcotics, or firearms, are disposed of or destroyed by Customs. An annual analysis of change in Customs seized and forfeited property and currency activity are disclosed in Note 7, Inventory and Related Property.

### **Property, Plant and Equipment**

Prior to October 1, 1995, Customs capitalized property, plant and equipment with an acquisition value of \$5,000 or greater, and a useful life of 2 years or greater. Beginning October 1, 1995, Customs capitalizes property, plant and equipment with an acquisition value of \$50,000 or greater, and a useful life of 2 years or greater. As of October 1, 2000, Customs implemented Statement of Federal Financial Accounting Standard (SFFAS) No. 10 – Accounting for Internal Use Software. SFFAS No. 10 requires the capitalization of all internal use software, including commercial off-the-shelf (COTS), contractor developed and internally developed software. As a result, Customs began capitalizing costs associated with the development of internal use software. In addition, Customs implemented the SFFAS No. 10 recommendation to apply capital lease accounting concepts to software license fee agreements that give Customs the “right to use” the software. Prior to October 1, 2000, costs relating to the development of internal use software and “right to use” license agreements

were expensed. Customs also capitalizes bulk acquisitions of like-kind property, plant and equipment items that are individually valued under the capitalization threshold but are, in the aggregate, significant to Customs financial position or results of operations.

Expenditures for normal repairs and maintenance are charged to expense as incurred. Expenditures greater than \$50,000 for improving or rebuilding an asset and that increase an asset's useful life are capitalized. Prior to October 1, 1995, expenditures greater than \$5,000 for improving or rebuilding an asset and that increased an asset's useful life were capitalized.

Depreciation and amortization are computed using the straight line method over the estimated useful lives of the assets ranging from 5 to 20 years for equipment and software, 2 to 30 years for leasehold improvements, and 30 years for buildings and structures. Amortization of capitalized software begins on the date of acquisition if purchased or when the module or component has been successfully tested if contractor or internally developed.

### **Other Non-Entity Items in Customs Custody**

Customs has the authority, in accordance with provisions of the Federal Crime Code and Federal Rules of Criminal Procedures, to retain property within its custody for evidentiary purposes. Because this property is not seized under seizure and forfeiture laws, it cannot become property of the U.S. Government and is intended to be returned to the owner at some future date. This evidence is not disclosed in the financial statements or a related note as the amount is not significant, but does represent a fiduciary responsibility of Customs.

### **Accrued Annual, Sick and Other Leave and Compensatory Time**

Annual leave, compensatory time, and other leave time are accrued when earned. The accrual is presented as a component of the payroll and benefits liability in the balance sheet and is adjusted for changes in compensation rates and reduced for annual leave taken. Sick leave is not accrued when earned, but is expensed when taken.

### **Pension Costs, Other Retirement Benefits, and Other Post-employment Benefits**

Most Customs employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS). Customs contributes 8.51 percent of base pay for regular employees, and 9.01 percent for law enforcement agents. Employees hired after December 31, 1983, are automatically covered by the Federal Employees' Retirement System (FERS) and Social Security. A primary feature of FERS is that it offers a savings plan to which Customs automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, Customs also contributes the employee's matching share for Social Security. For the FERS basic benefit Customs contributes 10.7 percent of base pay for regular employees, and 23.3 percent for law enforcement agents. The pay base for determining Customs contributions to CSRS and FERS for inspectors and canine officers includes regular pay and up to a maximum of \$15,000 (unaudited) and \$15,000 (audited) in certain overtime earnings for Fiscal Year 2001 and Fiscal Year 2000.

Customs recognizes the full costs of its employees' pension benefits, however, the liability associated with these costs is recognized by the Office of Personnel Management (OPM). As of September 30, 2001 and 2000, contributions of \$174.2 million (unaudited) and \$164.0 million (audited), respectively, were made to these plans. In addition, Customs recorded an additional expense of \$52.1 million (unaudited) and \$51.3 million (audited), respectively, for employee pension benefit costs in excess of Customs contributions.

Similar to Federal retirement plans, OPM, rather than Customs, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGLI). Customs is required to report the full cost of providing other retirement benefits (ORB) for

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its retired employees as well as reporting contributions made for active employees. As of September 30, 2001 and 2000, Customs ORB expense for retired employees totaled \$51.9 million (unaudited) and \$47.1 million (audited), respectively. As of September 30, 2001 and 2000, Customs contributions for active employees participating in the FEHBP and FEGLI programs were \$67.2 million (unaudited) and \$61.0 million (audited), respectively.

An expense and liability for other postemployment benefits (OPEB), which includes all types of benefits to former or inactive (but not retired) employees, their beneficiaries, and covered dependents is also recognized.

### **Workers' Compensation**

A liability is recorded for estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The FECA program is administered by the U.S. Department of Labor (Labor), which initially pays valid claims and subsequently seeks reimbursement from Federal agencies employing the claimants. Reimbursement to Labor on payments made occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this intra-governmental liability are made available to Customs as part of its annual appropriation from Congress in the year in which the reimbursement takes place.

Additionally, the actuarial liability estimate includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Based on information provided by Labor, Treasury allocates the actuarial liability to its bureaus and department offices based on the payment history for the bureaus and department offices. The net present value of estimated payments is not covered by budgetary resources and will require future funding.

### **Unexpended Appropriations**

Unexpended appropriations represent the amount of Customs unexpended appropriated spending authority as of fiscal year-end that is unliquidated or is unobligated and has not lapsed, been rescinded or withdrawn.

### **Cumulative Results of Operations**

Cumulative results of operations primarily represents the excess of user fee revenues over related expenses. It also reflects the net investment in property and equipment, and operating materials and supplies held for use, and transfers in of equipment, materials, and supplies from other Federal agencies without reimbursement. Also, included as a reduction in cumulative results of operations, are liabilities incurred, which will require funding from future appropriations, such as accumulated annual and other leave earned but not taken, accrued workers' compensation, and contingent liabilities.

### **Revenue, Financing Sources and Expense Recognition**

Customs entity activities are financed principally through appropriations, exchange revenue, and non-exchange revenue. Appropriations used are recognized as a financing source when expenses are incurred or assets are purchased. Exchange revenues from reimbursable services and intra-governmental reimbursable activity are recognized as earned when the good or service is provided and reflect the full cost of the good or service provided. Non-exchange revenue from user fees is recognized as earned in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended. Customs may retain the user fee revenues and expend them as authorized by law for Customs inspector overtime and other activities directly related to the services to which the fees relate. An imputed financing source is also recognized to offset costs incurred by Customs but funded by another federal source, generally in the period in which the cost was incurred. Expenses are recognized when goods or services are received, when inventory is used, or assets depreciated, or amortized.

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The Fiscal Year 2001 activities reported on the consolidated statement of net cost contain all resource costs assigned from Customs cost centers. All field operational cost centers were surveyed for time spent in the Passenger Processing, Trade Compliance, Outbound Operations and field Mission Support activities. For enforcement operational cost centers, the time spent in the activities was extracted from the Customs Electronic Data Warehouse. Time reported by the field and enforcement operational cost centers are also used to assign mission support costs to the field and operational cost centers and to “front-line” activities.

Non-entity Revenue is recognized when the cash Customs is entitled to collect on behalf of the Federal government is received. Primarily, these revenue collections result from current fiscal year activities. The significant types of revenues collected and related disbursements are described below:

- Duties: amounts collected on imported goods.
- User fees: amounts designed to maintain United States harbors, and to defray the cost of other miscellaneous service programs.
- Excise taxes: amounts collected on imported distilled spirits, wines and tobacco products, and other miscellaneous taxes collected on behalf of the Federal government.
- Fines and penalties: amounts collected for violations of laws and regulations.
- Refunds: payments made to importers/exporters is primarily identified when the import entry is liquidated, a process in which Customs makes final determination of duties, taxes, fees and interest owed on the entry and compares it to the estimated amount previously determined by and paid by the importer/broker. Interest is included in the refund generally for the period of time between when the estimated amounts were received from the importer/broker and the time the entry is liquidated. When a refund is identified prior to liquidation, the refund from this remittance is funded from the duty, tax, or fee collection rather than from the Refunds and Drawback account.
- Drawback: a remittance, in whole or in part, of duties, taxes, or fees. Drawback typically occurs when the imported goods on which duties, taxes, or fees have been previously paid are subsequently exported from the United States or destroyed prior to entering the commerce of the United States. Depending on the type of claim, the claimant has up to six or eight years from the date of importation to file for drawback.

A financing source and expense for refunds and drawback is recognized when payment is made. The financing source, representing permanent, indefinite appropriation accounts used to fund the disbursement, is recorded as a decrease in the amount transferred to Treasury General Fund Accounts reported on the Statement of Custodial Activity.

An accrual adjustment is included to adjust cash collections and refund disbursements with the net increase or decrease of accrued non-entity accounts receivables, net of uncollectible amounts, and refunds payable.

Customs will also take into custody, without risk or expense; merchandise termed “general order property,” which for various reasons can not be legally entered into the U.S. commerce. Customs sole responsibility for the general order property is to ensure it does not enter the commerce of the United States. If general order property remains in Customs custody for a prescribed period of time, without payment of all estimated duties, storage and other charges, it is considered unclaimed and abandoned and can be sold by Customs at public auction. Auction sales revenue in excess of charges associated with the sale or storage of the item is remitted to the Treasury General Fund. In some cases, Customs incurs charges prior to the sale and funds these costs from entity appropriations. Regulations permit Customs to offset these costs of sale before

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returning excess amounts to Treasury. Proceeds from the sale of general order property totaled \$7.5 million (unaudited) and \$6.4 million (audited) for the years ended September 30, 2001 and 2000, respectively. Excess amounts returned to the Treasury General Fund average \$1.1 million.

## 2. NON-ENTITY ASSETS

Non-entity assets as of September 30, 2001 and 2000, consists of the following (in thousands):

	2001 (unaudited)	2000 (audited)
Intragovernmental		
Fund balance with Treasury	\$ 807,414	\$ 278,836
Total Intragovernmental	<u>807,414</u>	<u>278,836</u>
Cash and other monetary instruments	23,644	132,958
Duty and trade related receivables, net	900,852	948,514
Advances and prepayments	5	(11)
Property, plant and equipment	5,282	6,430
Total Non-Entity Assets	<u>1,737,197</u>	<u>1,366,727</u>
Total Entity Assets	<u>2,565,985</u>	<u>2,247,081</u>
Total Assets	<u>\$ 4,303,182</u>	<u>\$ 3,613,808</u>

## 3. FUND BALANCE WITH TREASURY

Fund balance with Treasury as of September 30, 2001 and 2000, consists of the following (in thousands):

2001 (unaudited)	Entity	Non-Entity	Totals
Appropriated Funds	\$ 929,775	\$ 488,817	\$ 1,418,592
Trust Funds	86,623	319	86,942
Special Funds	776,071	247,385	1,023,456
Deposit Funds	9,190	70,893	80,083
Totals	<u>\$ 1,801,659</u>	<u>\$ 807,414</u>	<u>\$ 2,609,073</u>
2000 (audited)	Entity	Non-Entity	Totals
Appropriated Funds	\$ 734,349	\$ 249,514	\$ 983,863
Trust Funds	110,745	--	110,745
Special Funds	760,386	--	760,386
Deposit Funds	8,150	29,322	37,472
Totals	<u>\$ 1,613,630</u>	<u>\$ 278,836</u>	<u>\$ 1,892,466</u>

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Status of Fund Balance with Treasury as of September 30, 2001 and 2000, consists of the following (in thousands):

2001 (unaudited)	Entity	Non-Entity	Totals
Unobligated balance available	\$ 399,540	\$ 807,414	\$ 1,206,954
Unobligated balance unavailable	13,140	--	13,140
Obligated balance not yet disbursed	749,339	--	749,339
Restricted unobligated funds	639,640	--	639,640
Totals	<u>\$ 1,801,659</u>	<u>\$ 807,414</u>	<u>\$ 2,609,073</u>

2001 (unaudited)	Entity	Non-Entity	Totals
Unobligated balance available	\$ 357,355	\$ 278,836	\$ 636,191
Unobligated balance unavailable	32,939	--	32,939
Obligated balance not yet disbursed	583,696	--	583,696
Restricted unobligated funds	639,640	--	639,640
Totals	<u>\$ 1,613,630</u>	<u>\$ 278,836</u>	<u>\$ 1,892,466</u>

Entity amounts comprising the special fund balances result from Customs authority to assess and collect passenger and conveyance-related user fees, Customs authority to assess and collect fees associated with services performed at certain small airports or other facilities, and Customs authority to retain amounts needed to offset costs associated with collecting duties, taxes and fees for the Government of Puerto Rico. These special fund balances are restricted by law in their use to offset specific costs incurred by Customs. Customs is required to maintain \$30 million in its User Fees Account. Also, an additional \$640 million of the User Fees Account balance is restricted by law in its use to offset costs incurred by Customs until made available as provided in Appropriation Acts. As of September 30, 2001 and 2000: (1) Customs User Fees Account contained approximately \$755.5 million (unaudited) and \$742.9 million (audited), respectively; (2) Customs Services at Small Airports account contained approximately \$3.7 million (unaudited) and \$3.8 million (audited), respectively; and (3) the Refunds, Transfers and Expenses of Operation of Puerto Rico account contained approximately \$16.9 million (unaudited) and \$13.7 million (audited), respectively.

The entity trust fund balances result from Customs authority to use the proceeds from general order items sold at auction to offset specific costs incurred by Customs relating to their sale, to use available funds in the Salaries and Expense Trust Fund to offset specific costs for expanding border and port enforcement activities, and to use available funds from the Harbor Maintenance Fee Trust Fund to offset administrative expenses related to the collection of the Harbor Maintenance Fee.

The entity deposit fund balance represents amounts received as an advance that are not accompanied by an order. Once the order is received the deposit fund balance is decreased.

The non-entity appropriated fund balance represents permanent, indefinite appropriations to pay refunds and drawback claims of duties, taxes, or fees. The balance is presented as a non-entity balance because the refund and drawback payments are associated with Customs custodial activity of collecting revenue on behalf of the Federal government.

The non-entity special fund balance results from Customs authority to disburse monies received in connection with antidumping and countervailing (AD/CV) duty orders and findings to qualifying injured domestic industries.

The non-entity deposit fund balance represents collections for which final disposition has not been completed.

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#### 4. CASH AND OTHER MONETARY INSTRUMENTS

Cash and other monetary instruments as of September 30, 2001 and 2000, consist of the following (in thousands):

2001 (unaudited)	Entity	Non-Entity	Totals
Imprest Funds	\$ 672	\$ --	\$ 672
Undeposited Collections	433	15,557	15,990
Monetary Instruments	--	8,087	8,087
Totals	<u>\$ 1,105</u>	<u>\$ 23,644</u>	<u>\$ 24,749</u>
2000 (audited)	Entity	Non-Entity	Totals
Imprest Funds	\$ 1,085	\$ --	\$ 1,085
Undeposited Collections	--	131,489	131,489
Monetary Instruments	--	1,469	1,469
Totals	<u>\$ 1,085</u>	<u>\$ 132,958</u>	<u>\$ 134,043</u>

Undeposited collection balances represent timing differences between when cash relating to duties, taxes, fees, and other trade related collections are received and when the distribution of funds occurs. Cash can either be distributed to the General Fund, other Federal agencies, other governments, or returned to the importer/broker. The monetary instruments represents instruments importers/brokers provide to Customs in lieu of obtaining surety bonds.

#### 5. ACCOUNTS RECEIVABLE, NET

##### Intra-governmental Accounts Receivable

Accounts receivable due from other Federal agencies, as of September 30, 2001 and 2000, respectively, total \$11.8 million (unaudited) and \$18.7 million (audited), and are considered fully collectible.

##### Accounts Receivables, Net

Receivables from reimbursable services are recognized for work, or services provided to a private party. By law, collections of these receivables can be credited to the appropriation accounts from which the related costs were paid. As of September 30, 2001 and 2000, reimbursable service receivables total \$2.9 million (unaudited) and \$2.6 million (audited), respectively, and are considered fully collectible.

User fees are collected for inspectional processing of air and sea passengers and loaded railroad cars. Receivables accrue for airline and vessel fees on a quarterly basis and accrue for railroad fees on a monthly basis. Payment is due thirty days subsequent to the end of the quarter for airline and vessel fees, or sixty days subsequent to the end of the month for railroad fees. As of September 30, 2001 and 2000, user fee receivables total \$63.8 million (unaudited) and \$68.8 million (audited), respectively, and are net of uncollectible amounts totaling \$7.2 million (unaudited) and \$6.7 million (audited), respectively.

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**6. DUTY AND TRADE RELATED RECEIVABLES, NET**

Receivables as of September 30, 2001 and 2000 are as follows (in thousands):

Receivables Category	2001 (unaudited)		
	Gross Receivable	Amounts Uncollectible	Total Net Receivables
Duties	\$ 814,454	\$ (55,654)	\$ 758,800
Excise Taxes	40,060	(1,213)	38,847
User fees	62,000	(2,616)	59,384
Fines/penalties	485,675	(448,090)	37,585
Interest	47,295	(41,186)	6,109
Refunds and drawback	548	(421)	127
Totals	\$ 1,450,032	\$ (549,180)	\$ 900,852

Receivables Category	2000 (audited)		
	Gross Receivable	Amounts Uncollectible	Total Net Receivables
Duties	\$ 829,525	\$ (51,535)	\$ 777,990
Excise Taxes	40,300	(462)	39,838
User fees	65,228	(4,100)	61,128
Fines/penalties	737,326	(675,698)	61,628
Interest	57,302	(50,078)	7,224
Refunds and drawback	3,028	(2,322)	706
Totals	\$ 1,732,709	\$ (784,195)	\$ 948,514

Customs assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. At the time importers bring merchandise into the United States, they are required to file Customs entry documents. Generally, within 10 working days after Customs releases the merchandise into the U.S. commerce, the importer is to submit an entry document with payment of estimated duties, taxes, and fees. A receivable of \$816 million (unaudited) and \$846 million (audited) was recorded for 454,208 entries (unaudited) and 448,681 entries (audited) for merchandise released into commerce on or before September 30, 2001 and 2000, respectively, for which payment was not received as of September 30, 2001 and 2000. There were an additional 741 entries (unaudited) and 665 entries (audited) for merchandise released into commerce on or before September 30, 2001 and 2000, respectively, for which a receivable amount could not be determined because the entry summary documentation describing the type, quantity, and value of the merchandise had not been received from the importers. It is Customs policy to track and demand payment of unpaid estimated duties, taxes and fees receivable amounts by establishing a liquidated damage case which generally results in a fines and penalty type receivable. Of the duty and trade related net receivable amounts at September 30, 2001 and 2000, approximately 93 percent (unaudited) and 89 percent (audited) were collected by the end of the first week in November 2001 and 2000, respectively.

*See Accompanying Accountants' Review Report.*

In addition Customs import specialists review selected entry summaries to determine whether importer estimates of duties, taxes, and fees were accurate or whether additional (supplemental) amounts are owed and should be billed. Customs regulations allow the importer 90 days from the bill date in which to file a protest to be reviewed by the Port Director and an application requesting further review of the protest by Customs Office of Regulations and Rulings challenging the assessment of supplemental duties, taxes, and fees. If the protest and application for further review are denied by the Port Director, the protestor has an additional 60 days from the denial date to file for a review of the application by the Commissioner of Customs. Consequently, supplemental accounts receivable balances are only recorded on outstanding claims when the protested period has elapsed or when a protest decision has been rendered in Customs favor.

The Entry Reconciliation Program, implemented October 1, 1998, allows importers to make entry of merchandise when certain information elements, such as dutiable value, are not fully determined at time of release of goods into the United States commerce. The importer files a reconciliation entry up to 15 months after the imported goods enter the United States commerce, which finalizes the entry data, and makes the appropriate financial and statistical adjustments. Customs has 9,783 reconciliation entries associated with over 1.6 million entry summaries. Customs will begin liquidating the reconciliation entries in November 2001. Until the reconciliation entries are liquidated, Customs cannot determine whether additional duties or fees are due from the importer.

A fine or penalty is established when a violation of import/export law is discovered. Customs assesses a liquidated damage or penalty for these cases to the maximum extent of the law. After receiving the notice of assessment the importer or surety has 60 days to either file a petition requesting a review of the assessment or make payment of the assessed amount. If a petition is received and Customs finds there are extenuating circumstances, such as an incorrect assessment, which warrants mitigation, relief is granted as prescribed by Customs mitigation guidelines and directives. As of September 30, 2001 and 2000, Customs had 7,167 (unaudited) and 7,180 (audited) fines and penalty cases, respectively, recorded as receivables. Of the 7,167 fines and penalty cases, Customs identified 176 cases associated with a single company that declared bankruptcy during Fiscal Year 2000. The 176 cases total approximately \$246 million, and are secured by a \$2.5 million bond. Customs is also tracking another 23,400 cases, for which a receivable was not established because: (1) the petition period had not expired; or (2) Customs had not reached agreement (relief granted or denied or court settlement) with the importer or surety as to the amount of damages (fines) or penalties owed. For the 23,400 (unaudited) and 31,636 (audited) cases still in petition phase as of September 30, 2001 and 2000, respectively, Customs identified approximately \$60 million (unaudited) and \$35 million (audited), respectively as “actual loss of duties.”

*See Accompanying Accountants' Review Report.*



**7. INVENTORY AND RELATED PROPERTY****Operating Parts and Materials**

Operating parts and materials consist of parts and materials held for future consumption to repair and maintain Customs aircraft and vessels used in enforcement activities.

Operating parts and materials as of September 30, 2001 and 2000, consists of the following (in thousands):

2001 (unaudited)	Entity	Non-Entity	Totals
Aircraft	\$ 39,814	\$ --	\$ 39,814
Vessels	3,169	--	3,169
Totals	<u>\$ 42,983</u>	<u>\$ --</u>	<u>\$ 42,983</u>
2000 (audited)	Entity	Non-Entity	Totals
Aircraft	\$ 38,889	\$ --	\$ 38,889
Vessels	2,635	--	2,635
Totals	<u>\$ 41,524</u>	<u>\$ --</u>	<u>\$ 41,524</u>

Parts and materials acquired without reimbursement and consumed during the fiscal year ended September 30, 2001 and 2000, totaled \$35.7 million (unaudited) and \$27.6 million (audited), respectively. Included in the September 30, 2001 and 2000 balances are parts and materials transferred to Customs without reimbursement totaling \$17.7 million (unaudited) and \$17.7 million (audited), respectively. When ultimately consumed in Customs operations, an operating expense is recorded.

**Seized Property and Currency**

Seized property results principally from Customs criminal investigations and passenger/cargo processing. Seized items are not considered assets of Customs and are not reported as assets in Customs financial statements. These items include contraband and counterfeit/prohibited items such as drugs and weapons that have no recorded value. Under the requirements of Statement of Federal Financial Accounting Standards (SFFAS) No. 3, Accounting for Inventory and Related Property, forfeited and seized property held by Treasury bureaus, including Customs, are disclosed on a consolidated basis in the financial statements of the Treasury Forfeiture Fund. Additionally as required by SFFAS No. 3, Customs, as the seizing agency, is required to account for the seized property until the property is forfeited, returned, or otherwise disposed. Substantially all seized property, except drugs and weapons, is managed and maintained under a contract with an unrelated entity, and is disclosed at a value estimated by Customs personnel or, in some cases, an independent appraiser. Depending upon the need for evidence, seized currency is either deposited to a Treasury suspense account or stored in a vault at a financial institution or Customs facility.

*See Accompanying Accountants' Review Report.*

**8. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment as of September 30, 2001 and 2000, consists of the following (in thousands):

## 2001 (Unaudited)

Categories	Useful Life (in years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Aircraft	12 to 20	\$ 412,629	\$ (229,442)	\$ 183,187
ADP Mainframe	5	20,301	(16,012)	4,289
ADP Non-mainframe	5	26,907	(17,188)	9,719
ADP Software	5	146,578	(29,350)	117,228
Vehicles	6	91,917	(42,361)	49,556
Vessels	5 to 10	19,178	(17,262)	1,916
Land	N/A	5,338	--	5,338
Structures, Facilities (a)	30	50,867	(17,020)	33,847
Leasehold Improvements	2 to 30	53,177	(21,264)	31,913
Construction in Progress	N/A	124,333	--	124,333
Radio Communications	5	37,795	(36,370)	1,425
X-Ray/Lab Equipment	7	51,228	(25,807)	25,421
Assets Under Capital Lease	5	11,197	(9,500)	1,697
Office Equipment and Other	5	66,286	(51,094)	15,192
Totals – Entity		1,117,731	(512,670)	605,061
Totals – Non-Entity		9,560	(4,278)	5,282
Totals		\$ 1,127,291	\$ (516,948)	\$ 610,343

## 2000 (Audited)

Categories	Useful Life (in years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Aircraft	12 to 20	\$ 409,417	\$ (205,962)	\$ 203,455
ADP Mainframe	5	37,394	(26,051)	11,343
ADP Non-mainframe	5	14,883	(11,913)	2,970
ADP Software	5	8,630	(3,201)	5,429
Vehicles	6	57,638	(38,883)	18,755
Vessels	5 to 10	24,186	(22,346)	1,840
Land	N/A	4,728	--	4,728
Structures, Facilities (a)	30	50,861	(15,317)	35,544
Leasehold Improvements	2 to 30	49,351	(17,919)	31,432
Construction in Progress	N/A	107,526	--	107,526
Radio Communications	5	37,588	(36,227)	1,361
X-Ray/Lab Equipment	7	39,144	(22,223)	16,921
Assets under Capital Lease	5	10,440	(9,206)	1,234
Office Equipment and Other	5	81,857	(56,730)	25,127
Totals - Entity		933,643	(465,978)	467,665
Totals – Non-Entity		10,166	(3,736)	6,430
Totals		\$ 943,809	\$ (469,714)	\$ 474,095

(a) Includes four multi-use heritage assets located in Puerto Rico with an acquisition value of \$534 thousand.

*See Accompanying Accountants' Review Report.*

## Analysis of Change in Seized Property and Currency

The following information is consolidated with other Treasury bureaus and the U.S. Coast Guard and reported in the financial statements of the Treasury Forfeiture Fund. An analysis of change in seized property and currency during Fiscal Year 2000 is as follows (dollars in thousands):

	Balance October 1		Seizures		Remissions	
	Value	No.	Value	No.	Value	No.
Currency and monetary instruments	\$ 160,832	--	\$ 110,600	--	\$ (51,026)	--
Marketable securities	2,484	--	9,182	--	(701)	--
Real property	7,035	43	4,853	33	(1,870)	(10)
General property	99,450	7,224	162,054	16,655	(137,065)	(7,022)
Vessels	3,542	51	8,384	100	(5,735)	(36)
Aircraft	2,214	7	192	4	(535)	(2)
Vehicles	20,375	2,402	48,047	9,584	(32,266)	(3,379)
Totals	<u>\$ 295,932</u>	<u>9,727</u>	<u>\$ 343,312</u>	<u>26,376</u>	<u>\$ (229,198)</u>	<u>(10,449)</u>

- (a) Adjustments include reclassification of property categories and minor adjustments to beginning balance. Additionally, adjustments include property turned over to state and local or other Federal law enforcement agencies for prosecution or destruction prior to forfeiture.

## Analysis of Change in Material Non-Valued (Prohibited) Seized Property (a)

Category	Balance October 1			New Seizures			Remissions		
	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
Cannabis (marijuana)	5,717	12,597	--	558,612	1,231,516	--	--	--	--
Cocaine	2,853	6,283	--	39,529	87,146	--	--	--	--
Heroin	52	115	--	1,839	4,054	--	--	--	--
Firearms	--	--	893	--	--	14,872	--	--	(11,589)
Pornography	--	--	22,191	--	--	3,421	--	--	(811)
Totals	<u>8,622</u>	<u>18,995</u>	<u>23,084</u>	<u>599,980</u>	<u>1,322,716</u>	<u>18,293</u>	<u>--</u>	<u>--</u>	<u>(12,400)</u>

- (a) This schedule is presented for material non-valued (prohibited) property only. These items are retained and ultimately destroyed by Customs, and are not transferred to the Treasury Forfeiture Fund. The balance for cannabis, cocaine and heroin are presented by weight seized. The ending balance for firearms includes only those seized items that can actually be used as a firearm.

*See Accompanying Accountants' Review Report.*

Forfeitures		Adjustments (a)		Value Changes		Balance September 30	
Value	No	Value	No	Value	No	Value	No
\$ (84,855)	--	\$ (2,916)	--	\$ --	--	\$ 132,635	--
(89)	--	(10)	--	--	--	10,866	---
(7,024)	(26)	4,112	--	83	--	7,189	40
(15,738)	(9,704)	(15,904)	(635)	(109)	--	92,688	6,518
(2,182)	(69)	1,899	(8)	(178)	--	1,932	38
(665)	(3)	--	--	--	--	1,206	6
(15,478)	(6,191)	(1,291)	(583)	2,520	--	21,907	1,833
<u>\$ (126,031)</u>	<u>(15,993)</u>	<u>\$ (17,908)</u>	<u>(1,226)</u>	<u>\$ 2,316</u>	<u>--</u>	<u>\$ 268,423</u>	<u>8,435</u>

New Forfeitures			Adjustments			Balance September 30		
Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
(558,781)	(1,231,889)	--	(3,997)	(8,812)	--	1,551	3,412	--
(39,510)	(87,104)	--	(2,665)	(5,875)	--	207	450	--
(1,841)	(4,059)	--	(22)	(49)	--	28	61	--
--	--	(1,519)	--	--	(139)	--	--	2,518
--	--	(6,442)	--	--	(3,562)	--	--	14,797
<u>(600,132)</u>	<u>(1,323,052)</u>	<u>(7,961)</u>	<u>(6,684)</u>	<u>(14,736)</u>	<u>(3,701)</u>	<u>1,786</u>	<u>3,923</u>	<u>17,315</u>

## Analysis of Change in Forfeited Property

The following information presents the status of items seized by Customs through the forfeiture process. This information is consolidated with other Treasury bureaus and the U.S. Coast Guard and reported on the financial statements of the Treasury Forfeiture Fund.

An analysis of change in the forfeited property initially seized by Customs during Fiscal Year 2001 is as follows (dollars in thousands):

	Balance October 1 (a)		Forfeitures		Deposits/Sales		Disposals/Transfer	
	Value	No.	Value	No.	Value	No.	Value	No.
Currency/ monetary instruments	\$ 2,675	--	\$ 84,855	--	\$(86,491)	--	\$ --	--
Marketable securities	17	--	89	--	(89)	--	--	--
Real property	6,092	27	7,024	26	(4,670)	(20)	(248)	(4)
General property	2,285	3,046	15,738	9,704	(18,043)	(1,862)	(2,323)	(614)
Vessels	952	42	2,182	69	(2,495)	(68)	(455)	(10)
Aircraft	65	2	665	3	(623)	(4)	--	--
Vehicles	3,533	1,515	15,478	6,191	(12,788)	(5,974)	(1,495)	(84)
Totals	<u>\$ 15,619</u>	<u>4,632</u>	<u>\$ 126,031</u>	<u>15,993</u>	<u>\$(125,199)</u>	<u>(7,928)</u>	<u>\$ (4,521)</u>	<u>(712)</u>

(a) The October 1 and September 30 balances reflect net realizable values. The Fiscal Year 2001 forfeitures, deposits/sales, disposals/transfers, destroyed, adjustments and value change balances reflect estimated values.

(b) Adjustments include reclassification of property categories and adjustments to beginning balances.

## Analysis of Change in Material Non-Valued (Prohibited) Forfeited Property (a)

Category	Balance October 1			New Forfeitures			Transfers		
	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
Cannabis (marijuana)	143,001	314,194	--	558,781	1,231,889	--	(1,018)	(2,244)	--
Cocaine	18,670	41,047	--	39,510	87,104	--	(253)	(558)	--
Heroin	1,765	3,880	--	1,841	4,059	--	(111)	(245)	--
Firearms	--	--	447	--	--	1,516	--	--	(1,505)
Pornography	--	--	1,972	--	--	6,442	--	--	(26)
Totals	<u>163,436</u>	<u>359,121</u>	<u>2,419</u>	<u>600,132</u>	<u>1,323,052</u>	<u>7,958</u>	<u>(1,382)</u>	<u>(3,047)</u>	<u>(1,531)</u>

(a) This schedule is presented for material non-valued (prohibited) forfeited property only. These items are retained and ultimately destroyed by Customs, and are not transferred to the Treasury Forfeiture Fund. The balance for cannabis, cocaine and heroin are presented by weight seized. The ending balance for firearms includes only those seized items that can actually be used as a firearm.

*See Accompanying Accountants' Review Report.*



Destroyed		Adjustments (b)		Value Change		Fair Value Adjustment		Balance September 30 (a)	
Value	No.	Value	No.	Value	No.	Value	No.	Value	No.
\$ --	--	\$ 222	--	\$ --	--	\$ --	--	\$ 1,261	--
--	--	(12)	--	--	--	--	--	5	--
--	--	(786)	2	128	--	449	--	7,989	31
(93)	(7,813)	8,343	446	(87)	--	(4,598)	--	1,222	2,907
--	(8)	318	(2)	(3)	--	(236)	--	263	23
--	--	(7)	--	--	--	(21)	--	79	1
(2)	(72)	937	65	(21)	--	(1,926)	--	3,716	1,641
\$ (95)	(7,893)	\$ 9,015	511	\$ 17	--	\$ (6,332)	--	\$ 14,535	4,603

Destroyed			Adjustments			Balance September 30		
Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
(563,359)	(1,241,981)	--	(6,161)	(13,583)	--	131,244	288,275	--
(38,143)	(84,090)	--	(4,428)	(9,762)	--	15,356	33,741	--
(1,516)	(3,342)	--	31	68	--	2,010	4,420	--
--	--	(6)	--	--	17	--	--	469
--	--	(7,242)	--	--	466	--	--	1,612
(603,018)	(1,329,413)	(7,248)	(10,558)	(23,277)	483	148,610	326,436	2,081

**9. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES**

Liabilities not covered by budgetary or other resources represent amounts owed in excess of available appropriated or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future congressional appropriations. The September 30, 2001 and 2000, liabilities not covered by budgetary resources consists of the following (in thousands):

	2001 (unaudited)	2000 (audited)
Intragovernmental Accounts payable	\$ 47,348	\$ 42,806
Workers' compensation	271,621	224,294
Payroll and benefits	105,882	101,519
Capital leases and commercial software license agreements	118,872	286
Other	3,523	4,204
Total Liabilities Not Covered By Budgetary Resources	547,246	373,109
Total Liabilities Covered By Budgetary Resources	1,978,975	1,616,042
Total Liabilities	<u>\$ 2,526,221</u>	<u>\$ 1,989,151</u>

The Intragovernmental Accounts payable amount is the accrued workers' compensation liability to the U.S. Department of Labor. The Workers' compensation amount is the actuarial liability.

**10. REFUNDS PAYABLE**

Refunds payable consists of amounts owed for refunds of duty and other trade related activity and drawback claims. These liabilities are principally funded from the Refunds and Drawback account. The September 30, 2001 and 2000, accrued liability consists of the following (in thousands):

	2001 (unaudited)	2000 (audited)
Refunds	\$ 106,599	\$ 208,293
Drawback claims	14,488	15,223
Totals	<u>\$ 121,087</u>	<u>\$ 223,516</u>

The Fiscal Years 2001 and 2000 refunds payable includes a \$35.9 million (unaudited) and \$43.1 million (audited), respectively, accrued liability relating to the Trade and Development Act of 2000. This act requires refunds of duties paid on certain wool products to importers over the next three years.

The Entry Reconciliation Program, implemented October 1, 1998, allows importers to make entry of merchandise when certain information elements, such as dutiable value, are not fully determined at time of release of goods into the U.S. commerce. The importer files a reconciliation entry up to 15 months after the imported goods enter the United States commerce, which finalizes the entry data, and makes the appropriate financial and statistical information. Customs has 9,783 reconciliation entries, associated with over 1.6 million refunds. Customs will begin liquidating the reconciliation entries in November 2001. Until the reconciliation entries are received, Customs cannot determine actual amounts owed to the importers.

*See Accompanying Accountants' Review Report.*

**11. PAYROLL AND BENEFITS**

The payroll and benefits liability as of September 30, 2001 and 2000, consists of the following (in thousands):

	2001 (unaudited)	2000 (audited)
Payroll	\$ 91,813	\$ 76,810
Benefits	2,073	1,691
Annual and other leave liability	105,882	101,519
Continuation of pay	600	--
Totals	<u>\$ 200,368</u>	<u>\$ 180,020</u>

**12. OTHER LIABILITIES**

Other liabilities as of September 30, 2001 and 2000, consists of the following (in thousands):

	2001 (unaudited)	2000 (audited)
Probable contingencies (Note 15)	\$ 7,439	\$ 16,546
Conveyance, passenger, fees and other	10,057	--
Continuation of pay	--	58
Totals	<u>\$ 17,496</u>	<u>\$ 16,604</u>

**13. LEASES****Operating Leases**

Customs leases various facilities and equipment under leases accounted for as operating leases. The lease expense under these arrangements totaled \$181 million (unaudited) and \$172 million (audited) for the years ended September 30, 2001 and 2000, respectively.

The leased items consist of offices, warehouses, vehicles, and other equipment. Much of the office space occupied by Customs is either owned by the Federal government or is leased by the General Services Administration (GSA) from commercial sources. Customs is not committed to continue to pay rent to GSA beyond the period occupied providing proper advance notice to GSA is made and unless the space occupied is designated as unique space only for Customs operations. However, it is expected that Customs will continue to occupy and lease office space from GSA in future years and that the lease charges will be adjusted annually to reflect operating costs incurred by GSA. Lease amounts paid to GSA during Fiscal Year 2001 and 2000 were \$180 million (unaudited) and \$172 million (audited), respectively.

*See Accompanying Accountants' Review Report.*

As of September 30, 2001 and 2000, future minimum lease commitments under non-cancelable operating leases for equipment are as follows (in thousands):

<u>FY</u>	<u>2001</u> (unaudited)	<u>2000</u> (audited)
2001	\$ --	\$ 48
2002	6	--
2003	--	--
2004	--	--
2005	--	--
2006	--	--
Total future minimum lease	<u>\$ 6</u>	<u>\$ 48</u>

### Capital Leases and Commercial Software License Agreements

Customs has a number of capital lease agreements primarily involving mainframe computer equipment and other office equipment. The liabilities associated with capital lease agreements are reflected in the accompanying financial statements based upon the present value of the future minimum lease payments. As of September 30, 2001 and 2000, the aggregate capitalized cost of the equipment still subject to lease is \$1.3 million (unaudited) and \$1.9 million (audited), respectively. These capitalized items are included in the total assets acquired under capital lease in the amount of \$11.2 million (unaudited) and \$10.4 million (audited), respectively. Certain leases are cancelable upon certain funding conditions. Beginning October 1, 2001, Customs began applying lease accounting concepts to commercial off-the-shelf software license agreements. Prior to October 1, 2001, Customs expensed the costs associated with the agreements. As of September 30, 2001, the aggregate cost of the license agreements capitalized is \$133.1 million (unaudited). These agreements are included in the Capitalized Software. Certain license agreements are cancelable upon certain funding conditions.

Future minimum lease payments under the capitalized leases and the present value of the minimum lease obligation as of September 30, 2001 and 2000, are as follows (in thousands):

<u>FY</u>	<u>2001</u> (unaudited)	<u>2000</u> (audited)
2001	\$ --	\$ 257
2002	94	40
2003	20	--
2004	--	--
2005	--	--
2006	--	--
Total future minimum lease	<u>114</u>	<u>297</u>
Less: Imputed interest	<u>(3)</u>	<u>(11)</u>
Total net present value of capital lease	<u>\$ 111</u>	<u>\$ 286</u>

*See Accompanying Accountants' Review Report.*

Future minimum license fee payments under the commercial off-the-shelf license agreements and the present value of the minimum license obligation as of September 30, 2001, are as follows (in thousands):

FY	2001 (unaudited)
2002	\$ 17,726
2003	13,507
2004	16,915
2005	18,715
2006	17,981
Beyond 2006	<u>71,925</u>
Total future minimum license	156,769
Less: Imputed interest	<u>(38,008)</u>
Total net present value of software license agreements	<u>\$ 118,761</u>

Substantially all of the net present value of capital lease obligations and software license agreements are expected to be funded from future sources.

#### 14. INJURED DOMESTIC INDUSTRIES

The Continued Dumping and Subsidy Offset Act of 2000, P.L. 106-387, Title X, enacted in Fiscal Year 2001 calls for Customs to disburse monies received in connection with antidumping and countervailing (AD/CV) duty orders and findings to qualifying injured domestic industries. During Fiscal Year 2001, Customs collected \$247.4 million (unaudited) in AD/CV duty and recorded the liability. Subsequent to September 30, 2001, Customs began making payments related to the continued Dumping and Subsidy Offset Act of 2000. As of December 1, 2001, Customs disbursed \$188 million (unaudited) to domestic industries leaving \$59.4 million (unaudited) still subject to disbursement.

#### 15. COMMITMENTS AND CONTINGENCIES

Customs is party to various administrative proceedings, legal actions, and claims brought by or against it. Any financially unfavorable administrative or court decision will normally be funded from either: (1) Customs appropriation for refunds and drawback for trade litigation issues; (2) various claims and judgement funds maintained by Treasury; or (3) Customs salary and expense appropriation. It is the opinion of Customs management and legal counsel, that the ultimate resolution of these proceedings, legal actions, and claims will not materially affect the financial statements.

Customs is involved in various actions incidental to its operations. The probable and reasonably possible liabilities as of September 30, 2001 and 2000, consist of the following (in thousands):

Funded By:	2001 (unaudited)		2000 (audited)	
	Probable	Reasonably Possible	Probable	Reasonably Possible
Customs Appropriations	\$ 360	\$ 13,095	\$ 319	\$ 13,648
Refund & Drawback Appropriation	4,515	51,634	12,400	57,679
Other Claim/Judgment Funds	2,564	52,536	3,827	49,577
Totals	<u>\$ 7,439</u>	<u>\$ 117,265</u>	<u>\$ 16,546</u>	<u>\$ 120,904</u>

*See Accompanying Accountants' Review Report.*

There are six claims pending that were selected by the National Treasury Employees Union as test cases for their contention that Customs inspectors and canine enforcement officers are entitled to law enforcement officer (LEO) coverage, including special law enforcement retirement provisions in the Federal Employees Retirement System and the Civil Service Retirement System. Customs denied the claims and the claims were appealed to the Merit Systems Protection Board (MSPB). The MSPB issued decisions on four of the claims determining the employees were not entitled to LEO coverage. The four claims were appealed to the Court of Appeals for the Federal Circuit (CAFC), which issued decisions. The CAFC affirmed two of the cases, deciding Customs correctly denied the claims. These may be appealed to the Supreme Court. For the other two cases, the CAFC affirmed the decision to deny the claims for LEO coverage, but remanded the cases back to the MSPB to consider claims for LEO entitlement for service before December 1993. The remaining two cases were stayed before the MSPB pending the decisions in the other cases. The individual claims do not include a specific claim amount and an amount cannot be estimated at this time should it be determined that Customs inspectors and canine enforcement officers are entitled to LEO coverage.

Customs is generally liable to the Department of Defense (DoD) for damage or loss to aircraft on loan to Customs from DoD. As of September 30, 2001 and 2000, Customs had 16 (unaudited) and 16 (audited) loaned aircraft with an acquisition value of \$94.4 million (unaudited) and \$94.4 million (audited), respectively.

In accordance with Public Law 101-510, Customs is required to automatically cancel obligated and unobligated balances of appropriated funds five years after a fund expires. Obligations that have not been paid at the time an appropriation is canceled may be paid from an unexpired appropriation that is available for the same general purpose. On September 30, 2001, Customs canceled \$13.5 million (unaudited) from Fiscal Year 1996 annual appropriations, of which \$5.1 million (unaudited) was obligated. On September 30, 2000, Customs canceled \$20.1 million (audited) from Fiscal Year 1995 annual appropriations, of which \$7.4 million (audited) was obligated. For the years ended September 30, 2001 and 2000, Customs paid \$29 thousand (unaudited) and \$978 thousand (audited), respectively, for obligations associated with appropriations that were canceled in prior years. Based on historical activity, Customs estimates obligations related to canceled appropriations that will be paid from future appropriations would not exceed \$1 million in any fiscal year.

Customs was authorized to issue various grants and cooperative agreements totaling \$3.8 million (unaudited) and \$6.2 million (audited) through September 30, 2001 and 2000, respectively, of which \$3.8 million (unaudited) and \$6.2 million (audited) was obligated. As of September 30, 2001 and 2000, respectively, a total of \$2.4 million (unaudited) and \$5.2 million (audited) has been disbursed. The remaining grant and cooperative agreement funds are available for expenditure through May 31, 2004.

Customs estimated future drawback claims and refunds relating to custodial revenue collections received during Fiscal Year 2001 and in prior years, at \$987 million (unaudited) and \$844 million (unaudited), respectively. As of September 30, 2000, Customs estimated future drawback claims and refunds relating to custodial revenue collections received during Fiscal Year 2000 and in prior years, at \$964 million (audited) and \$890 million (audited), respectively.

There are various other trade issues resolved by other Federal Agencies, such as the Department of Commerce, which may result in refunds of duties, taxes, and fees from the Refunds and Drawback Account. Until such time as a decision is reached by the other agencies, Customs does not have sufficient information to estimate a contingent liability amount.

*See Accompanying Accountants' Review Report.*



**16. NET POSITION**

Net Position as of September 30, 2001 and 2000, consists of the following (in thousands):

	2001 (unaudited)			
	Special Funds	Trust Funds	Appropriated Funds	Totals
Unexpended Appropriations				
Unobligated – Available	\$ --	\$ 37,285	\$ 277,550	\$ 314,835
Unobligated – Unavailable	--	--	13,140	13,140
Obligations/Undelivered Orders	1,214	39,769	487,687	528,670
Total Unexpended Appropriations	1,214	77,054	778,377	856,645
Cumulative Results of Operations	820,230	14,309	85,777	920,316
Totals	<u>\$ 821,444</u>	<u>\$ 91,363</u>	<u>\$ 864,154</u>	<u>\$ 1,776,961</u>
	2000 (audited)			
	Special Funds	Trust Funds	Appropriated Funds	Totals
Unexpended Appropriations				
Unobligated – Available	\$ --	\$ 70,319	\$ 211,938	\$ 282,257
Unobligated – Unavailable	--	(275)	33,214	32,939
Obligations/Undelivered Orders	--	36,889	336,481	373,370
Total Unexpended Appropriations	--	106,933	581,633	688,566
Cumulative Results of Operations	804,617	22,286	109,188	936,091
Totals	<u>\$ 804,617</u>	<u>\$ 129,219</u>	<u>\$ 690,821</u>	<u>\$ 1,624,657</u>

**17. STATEMENT OF NET COST**

The programs displayed are equivalent to the missions listed in the U.S. Customs Service Fiscal Year 1997-2002 Strategic Plan.

**Passenger Processing**

To ensure compliance by targeting, identifying, and examining high-risk travelers, and to allow the expeditious movement of low-risk travelers. The goal of Passenger Processing is to achieve at least a 99 percent rate of compliance with Customs laws and regulations for passengers and crew of commercial and non-commercial conveyances entering or leaving the United States.

**Trade Compliance**

To maximize compliance through a balanced program of informed compliance, targeted enforcement actions, and the facilitation of complying cargo. Customs key goals are to: (a) increase compliance with U.S. trade laws to at least 90 percent overall and to at least 98 percent in primary focus industries, (b) continue to collect at least 99 percent of the revenue, (c) increase customer satisfaction, (d) decrease per unit cost, and (e) improve the accuracy of key statistics.

*See Accompanying Accountants' Review Report.*

## Outbound

To facilitate international trade, while achieving the highest degree of compliance with United States export requirements in order to protect the U.S. national security, economic interests, and health and safety of the American people. The Outbound Process is responsible for the series of Customs operations related to the movement of merchandise and conveyances outbound from the United States.

## Enforcement

To prevent the smuggling of narcotics and other contraband into the United States by creating an effective interdiction, intelligence, and investigation capability that disrupts and dismantles smuggling operations. Also to identify, disrupt, and dismantle the systems and criminal organizations that launder the proceeds generated by smuggling, trade fraud, and export violations.

Gross costs and earned revenue by budget functional classification for the years ended September 30, 2001 and 2000, consists of the following (in thousands):

2001 (unaudited)			
Functional Classification	Gross Cost	Earned Revenue	Net Cost
Administration of Justice	\$ 2,814,282	\$ (129,271)	\$ 2,685,011
General Government	30,046	(45,265)	(15,219)
Totals	<u>\$ 2,844,328</u>	<u>\$ (174,536)</u>	<u>\$ 2,669,792</u>
2000 (audited)			
Functional Classification	Gross Cost	Earned Revenue	Net Cost
Administration of Justice	\$ 2,623,300	\$ (151,235)	\$ 2,472,065
General Government	36,234	(39,339)	(3,105)
Totals	<u>\$ 2,659,534</u>	<u>\$ (190,574)</u>	<u>\$ 2,468,960</u>

Customs and Treasury have a \$29.1 million (unaudited) and \$27.9 million (audited) interagency agreement for the Interagency Crime and Drug Enforcement (ICDE) appropriation to reimburse Customs for the expenses necessary for the detection and investigation of individuals involved in organized crime drug trafficking as of September 30, 2001 and 2000, respectively. Customs expenses for the years ended September 30, 2001 and 2000, to support this activity totaled approximately \$34.5 million (unaudited) and \$38.0 million (audited), respectively, and were funded from the ICDE and Customs salaries and expense appropriation.

*See Accompanying Accountants' Review Report.*

Expenses by object class code classification for the years ended September 30, 2001 and 2000, consist of the following (in thousands):

Expenses	2001 (unaudited)	2000 (audited)
Personnel compensation and benefits	\$ 1,825,364	\$ 1,745,840
Travel and transportation	59,235	60,574
Rent, communication, and utilities	223,409	222,946
Printing and reproduction	4,283	3,948
Purchases of evidence and information	10,991	15,615
Contractual services	370,778	310,164
Supplies and materials	47,405	41,973
Equipment not capitalized	102,398	140,519
Depreciation expense	81,982	52,155
Other expenses	118,483	65,800
Totals	<u>\$ 2,844,328</u>	<u>\$ 2,659,534</u>

#### 18. STATEMENT OF NET POSITION – OTHER/PRIOR PERIOD ADJUSTMENTS

Customs adjusted the cumulative results of operations account balance during Fiscal Year 2001 and 2000 for corrections relating to prior year activity associated with capitalized equipment, parts and materials inventories, and future funding requirements. The net effect of the adjustments to the Fiscal Year 2001 and 2000 cumulative results of operations account balance totaled \$3.7 million (unaudited) and \$465 thousand (audited), respectively.

#### 19. STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2001 and 2000, budgetary resources obligated for undelivered orders total \$581.9 million (unaudited) and \$504.7 million (audited), respectively. Customs did not have any borrowing or contract authority, and did not have any repayment requirements, financing sources for repayments, or any other terms of borrowing authority used.

Adjustments to budgetary resources available at the beginning of Fiscal Year 2001 and 2000, consist of the following (in thousands):

	2001 (unaudited)	2000 (audited)
Recoveries of prior year obligations	\$ 99,260	\$ 560,082
Cancellation of expired and no-year accounts	(13,456)	(20,100)
Enacted rescissions of prior year balances	(5,019)	(18,637)
Totals	<u>\$ 80,785</u>	<u>\$ 521,345</u>

#### 20. STATEMENT OF FINANCING

The Financing Sources Yet to be Provided presented on the Statement of Financing represents the change between the beginning and ending balances for Liabilities Not Covered by Budgetary and Other Resources presented on the balance sheet.

*See Accompanying Accountants' Review Report.*

**21. REFUNDS AND OTHER PAYMENTS**

Disbursements from the Refunds and Drawback account for the years ended September 30, 2001 and 2000, consist of the following (in thousands):

	2001 (unaudited)	2000 (audited)
Refunds	\$ 529,124	\$ 812,038
Drawback	403,180	420,114
Totals	<u>\$ 932,304</u>	<u>\$ 1,232,152</u>

The disbursements include interest payments of \$71.7 million (unaudited) and \$130.4 million (audited) for Fiscal Years 2001 and 2000, respectively. In certain instances, a refund may be identified prior to liquidation for amounts remitted by the importer. These refunds are funded from the collections rather than the Refunds and Drawback account. During Fiscal Years 2001 and 2000, these refunds totaled \$71 million (unaudited) and \$38 million (audited), respectively.

Amounts refunded during Fiscal Years 2001 and 2000 identified by entry year consist of the following (in thousands):

Entry Year	2001 (unaudited)	2000 (audited)
2001	\$ 424,941	\$ --
2000	224,418	512,181
1999	70,885	283,741
1998	--	117,894
Prior Years	212,060	318,336
Totals	<u>\$ 932,304</u>	<u>\$ 1,232,152</u>

The disbursement totals for refunds includes antidumping and countervailing duties collected that are refunded pursuant to rulings by the Department of Commerce (Commerce). Antidumping duties are collected when it is determined that a class or kind of foreign merchandise is being released into the U.S. commerce at less than its fair value to the detriment of an U.S. industry. Countervailing duties are collected when it is determined that a foreign government is providing a subsidy to its local industries to manufacture, produce, or export a class or kind of merchandise for import into the U.S. commerce to the detriment of an U.S. industry. These duties are refunded when Commerce issues a decision in favor of the foreign industry.

The total amounts of antidumping and countervailing duties vary from year to year depending on decisions from Commerce. Antidumping and countervailing duty refunds and associated interest refunded during Fiscal Years 2001 and 2000 were as follows (in thousands):

	2001 (unaudited)	2000 (audited)
Antidumping and countervailing duty refunds	\$ 140,169	\$ 217,515
Interest	28,007	70,211
Total antidumping and countervailing duty refunds	<u>\$ 168,176</u>	<u>\$ 287,726</u>

*See Accompanying Accountants' Review Report.*

**REQUIRED SUPPLEMENTARY INFORMATION****A. FEDERAL ACCOUNT SYMBOLS AND TITLES**

**ENTITY FUNDS** – Customs entity operations are funded principally through the following accounts.

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**General Funds**

20X0602	Salaries and Expenses
20 / 0602	Salaries and Expenses, annual and multi-year accounts
20X0604	Operation and Maintenance, Air and Marine Interdiction Program
20 / 0604	Operation and Maintenance, Air and Marine Interdiction Program, multi-year accounts
20X0608	Customs Air Interdiction Facilities, Construction, Improvements and Related Expenses
20X0609	Air and Marine Interdiction Programs, Procurement
20X0610	Automation Modernization

**Special Funds**

20X5687	Refunds, Transfers and Expenses of Operations, Puerto Rico
20X5694	Customs Services at Small Airports
205694	User Fees – Small Airports
20X5695	Customs User Fees Account, U.S. Customs Service
205695.3	Customs Merchandise Processing Fee

**Trust Funds**

20X8529	Violent Crime Reduction Program
20X8789	Refunds, Transfers, Expenses, Unclaimed, Abandoned and Seized Goods
20X8870	Harbor Maintenance Fee Collection

**NON-ENTITY FUNDS** – Customs records non-entity activity in the following accounts.

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**General Fund Receipt Accounts**

121010	Fines, Penalties & Forfeitures, Agriculture Laws, Department of Agriculture
200152	Excise Taxes
200310	Duties on Imports
200311	Tonnage Duty Fees
201040	Fines, Penalties and Forfeitures, Customs, Commerce and Antitrust Laws
201060	Forfeitures of Unclaimed Money and Property
201210	Contributions to Conscience Fund
201435	General Fund Proprietary Interest, Not Otherwise Classified
203200	Collections of Receivables from Canceled Accounts
203220	General Fund Proprietary Receipts, Not Otherwise Classified, All Other
20F3845.06	Proceeds of Sale, Personal Property
613220	General Fund Proprietary Receipts, Not Otherwise Classified, Consumer Product Safety Commission
753220	General Fund Proprietary Receipts, Not Otherwise Classified, All Other, Dept. of Health & Human Services

**Deposit Funds**

12X6148	Assessments on Imports of Beef and Pork Products, Agriculture Marketing Services, Dept. of Agriculture
20X6157	Duties Collected for the Virgin Islands Government

**Revolving Funds**

04X4505.01	Revolving Fund, Government Printing Office
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*See Accompanying Accountants' Review Report.*

**Special Fund and Special Fund Receipt Accounts**

12X5161	Agriculture Quarantine Inspection User Fees Account, Animal and Plant Health Inspection Service, USDA
14X5137.2	Import Duties on Arms and Ammunition, Migratory Birds Conservation Account, U.S. Fish and Wildlife
205209	30% of Customs Duties, Funds for Strengthening Markets, Income and Supply
20X5687.001	Deposits, Duties and Taxes, Puerto Rico
20X5688	Continued Dumping and Subsidy Offset
205688	Antidumping and Countervailing Duties, Continued Dumping and Subsidy Offset

**Trust Funds**

208789.001	Proceeds of Sales of Unclaimed, Abandoned, and Seized Goods
20X8863	Harbor Maintenance Trust Fund

**General Funds**

20X0603	Refunds and Drawback
20X0903	Refunding Internal Revenue Collections

**B. STATEMENT OF BUDGETARY RESOURCES**

Budgetary resources disaggregated by major accounts for the years ended September 30, 2001 and 2000, consists of the following (in thousands):

	2001 (unaudited)			
	Appropriated Funds	Trust Funds	Special Funds	Totals
<b>Budgetary Resources</b>				
Budget authority	\$ 2,343,542	\$ 2,994	\$ 354,699	\$ 2,701,235
Unobligated balance	254,384	70,043	714,739	1,039,166
Spending authority from offsetting collections earned	446,066	9	4,759	450,834
Adjustments, anticipated for rest of year	72,232	2,213	6,340	80,785
<b>Total Budgetary Resources</b>	<b>\$ 3,116,224</b>	<b>\$ 75,259</b>	<b>\$ 1,080,537</b>	<b>\$ 4,272,020</b>
<b>Status of Budgetary Resources</b>				
Obligations incurred	\$ 2,825,534	\$ 37,974	\$ 356,192	\$ 3,219,700
Unobligated balances available	277,550	37,285	84,705	399,540
Unobligated balances not available	13,140	--	639,640	652,780
<b>Total Budgetary Resources</b>	<b>\$ 3,116,224</b>	<b>\$ 75,259</b>	<b>\$ 1,080,537</b>	<b>\$ 4,272,020</b>
<b>Outlays</b>				
Obligations	\$ 2,825,534	\$ 37,974	\$ 356,192	\$ 3,219,700
Spending authority from offsetting collections and adjustments	(536,774)	(2,222)	(11,099)	(550,095)
Obligated balance, net-beginning of period	499,001	39,864	40,480	579,345
Obligated balance, net-end of period	(639,757)	(48,372)	(51,726)	(739,855)
<b>Total Outlays</b>	<b>\$ 2,148,004</b>	<b>\$ 27,244</b>	<b>\$ 333,847</b>	<b>\$ 2,509,095</b>

*See Accompanying Accountants' Review Report.*



2000 (audited)

	Appropriated Funds	Trust Funds	Special Funds	Totals
Totals				
Budgetary Resources				
Budget authority	\$ 1,920,246	\$ 64,000	\$ 299,542	\$ 2,283,788
Unobligated balance	277,952	72,608	753,552	1,104,112
Spending authority from offsetting collections earned	154,734	256	42,690	197,680
Adjustments, anticipated for rest of year	506,006	1,473	13,866	521,345
Total Budgetary Resources	<u>\$ 2,858,938</u>	<u>\$ 138,337</u>	<u>\$ 1,109,650</u>	<u>\$ 4,106,925</u>
Status of Budgetary Resources				
Obligations incurred	\$ 2,613,786	\$ 68,293	\$ 394,912	\$ 3,076,991
Unobligated balances available	211,938	70,319	75,098	357,355
Unobligated balances not available	33,214	(275)	639,640	672,579
Total Budgetary Resources	<u>\$ 2,858,938</u>	<u>\$ 138,337</u>	<u>\$ 1,109,650</u>	<u>\$ 4,106,925</u>
Outlays				
Obligations	\$ 2,613,786	\$ 68,293	\$ 394,912	\$ 3,076,991
Spending authority from offsetting collections and adjustments	(699,173)	(2,053)	(56,556)	(757,782)
Obligated balance, net-beginning of period	493,621	25,378	57,592	576,591
Obligated balance, net-end of period	(499,001)	(39,864)	(40,480)	(579,345)
Total Outlays	<u>\$ 1,909,233</u>	<u>\$ 51,754</u>	<u>\$ 355,468</u>	<u>\$ 2,316,455</u>

*See Accompanying Accountants' Review Report.*

**C. PETITIONED AND PROTESTED SCHEDULE**

An analysis of the changes in petitioned and protested assessed amounts during Fiscal Years 2001 and 2000 is as follows (in thousands):

2001 (unaudited)						
	Balance October 1	Additional Assessments	Protest in Favor of Debtor	Net Reduction Administrative Process	Additional Receivable	Balance September 30
Duties	\$ 43,226	\$ 46,736	\$ (13,926)	\$ (3,584)	\$ (26,451)	\$ 46,001
Taxes	661	423	(194)	(582)	(89)	219
Fees	594	289	(425)	202	(118)	542
Fines/Penalties	1,612,284	1,703,007	(573,710)	(216)	(449,614)	2,291,751
Interest	28,069	17,789	(8,648)	(1,322)	(5,754)	30,134
Totals	<u>\$ 1,684,834</u>	<u>\$ 1,768,244</u>	<u>\$ (596,903)</u>	<u>\$ (5,502)</u>	<u>\$ (482,026)</u>	<u>\$ 2,368,647</u>
2000 (audited)						
	Balance October 1	Additional Assessments	Protest in Favor of Debtor	Net Reduction Administrative Process	Additional Receivable	Balance September 30
Duties	\$ 53,783	\$ 231,609	\$ (20,212)	\$ (53,640)	\$ (168,314)	\$ 43,226
Taxes	31	849,192	(7,710)	(1,418)	(839,434)	661
Fees	346	18,296	(686)	(1,362)	(16,000)	594
Fines/Penalties	2,006,233	1,064,582	(972,674)	(3,927)	(481,930)	1,612,284
Interest	21,453	56,294	(16,217)	(569)	(32,892)	28,069
Totals	<u>\$ 2,081,846</u>	<u>\$ 2,219,973</u>	<u>\$ (1,017,499)</u>	<u>\$ (60,916)</u>	<u>\$ (1,538,570)</u>	<u>\$ 1,684,834</u>

Customs reviews selected entry documentation to determine whether importer payment estimates of duties, taxes, and fees were accurate or whether additional supplemental amounts are owed and should be billed. Customs regulations allow the importer 90 days from the bill date in which to file a protest to be reviewed by the Port Director and an application requesting further review of the protest by Customs Office of Regulations and Rulings challenging the assessment of supplemental duties, taxes, and fees. If the protest and application for further review are denied by the Port Director, the protestor has an additional 60 days from the denial date for a review of the application by the Commissioner of Customs. Consequently, Customs recognizes accounts receivables only when the protested period has elapsed or when a protest decision has been rendered in Customs favor.

Additionally, importers and their sureties also have the option to petition for relief after receipt of Customs notice that a fine or penalty has been assessed when a violation of law or regulation is discovered. The importer or surety has 60 days to file a petition for relief or make payment of the assessed amount. If a petition is received and Customs finds there are extenuating circumstances, such as an incorrect assessment, which warrants mitigation, relief is granted as prescribed by Customs mitigation guidelines and directives. Consequently, Customs recognizes accounts receivables only when the petition period has elapsed or when a petition decision has been rendered.

*See Accompanying Accountants' Review Report.*

**D. DEFERRED MAINTENANCE**

Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be performed, and is delayed until a future period. Maintenance includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable service and achieves its useful life. Deferred maintenance on property, plant and equipment as measured by condition assessment survey, is comprised of (in thousands):

	2001		2000	
	Condition Assessment	Deferred Maintenance	Condition Assessment	Deferred Maintenance
Building and Structures	Fair	\$ 33		\$ --
Aircraft		--		--
Vehicles	Fair	20	Fair	20
Vessels	Fair	1,800	Fair	1,800
Totals		<u>\$ 1,853</u>		<u>\$ 1,820</u>

**E. INTRA-GOVERNMENTAL ASSETS, LIABILITIES, REVENUE AND COSTS**

Balances representing intra-governmental asset, liability, revenue and cost activity consist of the following (in thousands):

**Intra-governmental Amounts – Assets**

## Partner Agency

	2001		2000	
	Fund Balance with Treasury	Accounts Receivable/ Advances	Fund Balance with Treasury	Accounts Receivable/ Advances
Department of the Treasury	\$ 2,609,073	\$ -	\$ 1,892,466	\$ --
Treasury Forfeiture Fund	--	9,738	--	13,533
Financial Crimes Enforcement Network	--	32	--	48
U.S. Secret Service	--	--	--	272
Alcohol, Tobacco & Firearms	--	3	--	79
Bureau of Public Debt	--	--	--	--
Departmental Offices	--	23,098	--	18,414
Totals Department of the Treasury	<u>2,609,073</u>	<u>32,871</u>	<u>1,892,466</u>	<u>32,346</u>
Department of Defense	--	836	--	1,073
Department of Health & Human Services	--	13	--	3
Agency for International Development	--	8	--	123
Department of Transportation	--	59	--	60
United States Postal Service	--	20	--	--
Federal Deposit Insurance Corp	--	--	--	3
General Services Administration	--	4	--	1,938
Department of State	--	722	--	320
Department of Justice	--	59	--	1,192
Office of Personnel Management	--	3	--	--
National Security Agency	--	5	--	--
Social Security Administration	--	2	--	25
Office of Housing & Urban Development	--	--	--	50
Central Intelligence Agency	--	1	--	1
Environmental Protection Agency	--	1	--	2
Totals	<u>\$ 2,609,073</u>	<u>\$ 34,604</u>	<u>\$ 1,892,466</u>	<u>\$ 37,136</u>

Additionally, Customs advanced \$11.3 million to other Federal sources in Fiscal Year 2000 which is expected to be returned without expenditure.

*See Accompanying Accountants' Review Report.*

**Intra-governmental Amounts – Liabilities**

## Partner Agency

	2001		2000	
	Accounts Payable	Other	Accounts Payable	Other
General Fund	\$ --	\$ 1,283,917	\$ --	\$ 1,060,504
Bureau of Public Debt/Franchise Funds	9	--	12	--
Internal Revenue Service	23	--	193	--
Federal Law Enforcement Training Center	812	--	535	--
Departmental Offices	133	--	--	(104)
Financial Management Service	--	--	2	--
Totals Department of the Treasury	977	1,283,917	742	1,060,400
U.S. Equal Employment Opportunity Commission	(1)	--	1	--
Department of Defense	2,181	1,176	3,198	7,721
National Aeronautics & Space Administration	--	--	11	--
Department of Health and Human Services	--	--	143	--
Department of Transportation	--	--	2	--
General Services Administration	--	164	2,760	75
Social Security Administration	--	1	--	3,960
Office of Personnel Management	--	12,872	49	11,073
Department of State	--	10,737	839	6,468
Department of Labor	--	47,348	--	43,008
Department of Justice	--	--	(13)	--
Department of Commerce	1	--	--	--
Department of Agriculture	23	--	6	--
Government Printing Office	--	--	309	--
Library of Congress	--	--	33	--
Department of Veterans Affairs	--	--	1	--
National Security Agency	--	1	34	--
Totals	\$ 3,181	\$ 1,356,216	\$ 8,115	\$ 1,132,705

**Intra-governmental Amounts – Revenue and Costs**

	2001		2000	
	Exchange Intra-governmental Revenue	Cost to Generate Exchange Intra-governmental Revenue	Exchange Intra-governmental Revenue	Cost to Generate Exchange Intra-governmental Revenue
Budget Functions				
Administration of Justice	\$ 94,221	\$ 99,680	\$ 109,280	\$ 119,385
General Government	264	264	--	--

See Accompanying Accountants' Review Report.

**Non-Exchange Revenue**

	2001		2000	
	In	Out	In	Out
Partner Agency				
Department of Defense	\$ 2,484	\$ 5	\$ 18,480	\$ --
Department of Justice	--	--	13	10
Department of Transportation	--	--	31	--
Department of State	77	--	--	--
General Services Administration	7	--	14	--
Federal Law Enforcement Training Center	7	19	--	--
Department of Agriculture	2	--	1	--
Federal Emergency Mgmt Agency	--	--	16	--
National Aeronautics & Space Admin	38	--	--	--
Department of Energy	38	--	--	--
Executive Office for Asset Forfeiture	37,310	--	28,739	--
Alcohol Tobacco and Firearms	--	--	12	--
Totals	<u>\$ 39,963</u>	<u>\$ 24</u>	<u>\$ 47,306</u>	<u>\$ 10</u>

**OTHER ACCOMPANYING INFORMATION****Entity Receivables**

An aging of entity receivables as of September 30, 2001 and 2000, is as follows (in thousands):

2001	Aged Period					Total
	<=90 days	91days-1 year	1-2 years	2-3 years	3+ years	
Reimbursable services	\$ 2,861	\$ 43	\$ 10	\$ 3	\$ 11	\$ 2,928
User fees	63,992	603	3,038	945	2,405	70,983
Gross receivables	66,853	646	3,048	948	2,416	73,911
Less uncollectible amounts	(6,422)	(58)	(380)	(91)	(232)	(7,183)
Net receivables	<u>\$ 60,431</u>	<u>\$ 588</u>	<u>\$ 2,668</u>	<u>\$ 857</u>	<u>\$ 2,184</u>	<u>\$ 66,728</u>

2000	Aged Period					Total
	<=90 days	91days-1 year	1-2 years	2-3 years	3+ years	
Reimbursable services	\$ 2,589	\$ 32	\$ 22	\$ 15	\$ 4	\$ 2,662
User fees	61,716	4,539	2,494	2,524	4,206	75,479
Gross receivables	64,305	4,571	2,516	2,539	4,210	78,141
Less uncollectible amounts	(478)	(124)	(1,176)	(902)	(4,046)	(6,726)
Net receivables	<u>\$ 63,827</u>	<u>\$ 4,447</u>	<u>\$ 1,340</u>	<u>\$ 1,637</u>	<u>\$ 164</u>	<u>\$ 71,415</u>

*See Accompanying Accountants' Review Report.*

## Non-Entity Receivables

An analysis of the changes in accounts receivable during Fiscal Years 2001 and 2000 is as follows (in thousands):

2001						
Receivable Category	Balance October 1	Receivables Recorded During the Fiscal Year	Collections	Write-offs	Adjustments	Balance September 30
Duties	\$ 829,525	\$ 20,603,802	\$ (20,607,806)	\$ (9,564)	\$ (1,503)	\$ 814,454
Excise Taxes	40,300	2,074,369	(2,083,398)	(201)	8,990	40,060
Fees	65,228	1,573,401	(1,573,862)	(155)	(2,612)	62,000
Fines/penalties	737,326	2,103,466	(67,162)	(28,172)	(2,259,783)	485,675
Interest	57,302	72,509	(55,657)	(23,359)	(3,500)	47,295
Refunds/drawback	3,028	548	(3,028)	--	--	548
Totals	1,732,709	\$ 26,428,095	\$ (24,390,913)	\$ (61,451)	\$ (2,258,408)	1,450,032
Less uncollectible amounts	(784,195)					(549,180)
Net receivables	\$ 948,514					\$ 900,852
2000						
Receivable Category	Balance October 1	Receivables Recorded During the Fiscal Year	Collections	Write-offs	Adjustments	Balance September 30
Duties	\$ 834,436	\$ 20,322,447	\$ (20,293,633)	\$ (1,014)	\$ (32,711)	\$ 829,525
Excise Taxes	32,661	1,938,047	(1,934,811)	--	4,403	40,300
Fees	56,785	1,581,322	(1,569,446)	(372)	(3,061)	65,228
Fines/penalties	404,130	3,607,827	(118,956)	(25,381)	(3,130,294)	737,326
Interest	41,680	54,351	(35,180)	(1,808)	(1,741)	57,302
Refunds/drawback	3,374	3,030	(3,376)	--	--	3,028
Totals	1,373,066	\$ 27,507,024	\$ (23,955,402)	\$ (28,575)	\$ (3,163,404)	1,732,709
Less uncollectible amounts	(451,739)					(784,195)
Net receivables	\$ 921,327					\$ 948,514

See Accompanying Accountants' Review Report.



An aging of non-entity Intra-governmental receivables as of September 30, 2001 and 2000 is as follows (in thousands):

	Aged Period					Total
	<=90 days	91days-1 year	1-2 years	2-3 years	3+ years	
2001						
Duties	\$ 742,996	\$ 18,120	\$ 13,843	\$ 2,644	\$ 36,851	\$ 814,454
Excise taxes	38,267	978	793	--	22	40,060
User fees	60,149	224	1,108	3	516	62,000
Fines/penalties	128,373	256,612	63,959	14,288	22,443	485,675
Interest	591	5,463	8,907	956	31,378	47,295
Refunds and drawback	289	--	--	--	259	548
Gross receivables	970,665	281,397	88,610	17,891	91,469	1,450,032
Less uncollectible amounts	(112,552)	(260,818)	(75,782)	(14,927)	(85,101)	(549,180)
Net receivables	<u>\$ 858,113</u>	<u>\$ 20,579</u>	<u>\$ 12,828</u>	<u>\$ 2,964</u>	<u>\$ 6,368</u>	<u>\$ 900,852</u>
	Aged Period					Total
	<=90 days	91days-1 year	1-2 years	2-3 years	3+ years	
2000						
Duties	\$ 768,458	\$ 10,856	\$ 2,577	\$ 18,341	\$ 29,293	\$ 829,525
Excise taxes	39,800	277	--	--	223	40,300
User fees	63,874	813	5	501	35	65,228
Fines/penalties	84,183	524,872	19,956	19,029	89,286	737,326
Interest	638	8,411	1,224	8,994	38,035	57,302
Refunds and drawback	3	937	126	818	1,144	3,028
Gross receivables	956,956	546,166	23,888	47,683	158,016	1,732,709
Less uncollectible amounts	(67,903)	(527,765)	(18,246)	(37,451)	(132,830)	(784,195)
Net receivables	<u>\$ 889,053</u>	<u>\$ 18,401</u>	<u>\$ 5,642</u>	<u>\$ 10,232</u>	<u>\$ 25,186</u>	<u>\$ 948,514</u>

*See Accompanying Accountants' Review Report.*

**CUSTOMS COLLECTIONS BY CATEGORY**

(Dollars in thousands)

	1997	1998	1999	2000	2001
<b>Duties</b>					
Consumption entries	\$ 18,720,977	\$ 18,537,332	\$ 18,405,248	\$ 19,857,605	\$ 19,272,396
Warehouse withdrawals	146,247	121,593	136,902	115,097	116,214
Mail entries	9,076	8,419	8,022	5,976	5,355
Passenger baggage entries	20,117	20,474	20,866	21,470	13,430
Crew baggage entries	87	105	100	100	54
Military baggage entries	42	51	37	34	17
Informal entries	28,890	31,209	40,590	45,102	48,472
Vessel repair entries	9,847	14,896	14,660	16,067	14,337
Other duties	301,275	384,058	428,968	494,450	343,574
<b>Total Duties</b>	<u>19,236,558</u>	<u>19,118,137</u>	<u>19,055,393</u>	<u>20,555,901</u>	<u>19,813,849</u>
<b>Miscellaneous</b>					
Violations of Customs law	43,377	56,554	56,089	111,703	66,082
Testing, inspecting & grading	40	32	25	31	38
Miscellaneous taxes	64,882	67,169	68,738	70,419	71,629
USDA collections	53,160	62,847	66,487	68,219	67,580
Harbor maintenance fee	732,759	645,023	551,146	673,324	706,763
Fees	1,940	2,488	2,368	2,916	3,011
User fee account	1,287,174	1,241,614	1,208,258	1,277,505	1,264,211
Unclaimed funds	940	1,529	2,175	850	790
Recoveries	43	30	27	56	89
Interest	13,882	26,900	31,437	38,603	56,080
Other Customs receipts	10,828	13,672	11,908	6,983	9,218
<b>Total Miscellaneous</b>	<u>2,209,025</u>	<u>2,117,858</u>	<u>1,998,658</u>	<u>2,250,609</u>	<u>2,245,491</u>
<b>Internal Revenue Taxes</b>	<u>1,152,855</u>	<u>1,171,844</u>	<u>1,351,749</u>	<u>1,541,419</u>	<u>1,694,097</u>
<b>Total Collections</b>	<u>\$ 22,598,438</u>	<u>\$ 22,407,839</u>	<u>\$ 22,405,800</u>	<u>\$ 24,347,929</u>	<u>\$ 23,753,437</u>

Total Collections include both custodial, duty, tax, fee and interest collections, and entity user fee collections recorded by port locations during the period October through September, as follows:

Custodial collections	\$ 22,143,578	\$ 22,071,957	\$ 22,132,062	\$ 24,049,336	\$ 22,484,774
Entity collections	454,860	335,882	273,738	298,593	1,268,663
<b>Total Collections</b>	<u>\$ 22,598,438</u>	<u>\$ 22,407,839</u>	<u>\$ 22,405,800</u>	<u>\$ 24,347,929</u>	<u>\$ 23,753,437</u>

*See Accompanying Accountants' Review Report.*

## CUSTOMS COLLECTIONS BY MAJOR PROCESSING PORT LOCATIONS

(Dollars in thousands)

	1997	1998	1999	2000	2001
Boston	\$ 545,441	\$ 528,748	\$ 500,925	\$ 511,237	\$ 511,361
Buffalo-Niagara Falls	183,606	153,804	155,041	164,036	163,327
Ogdensburg	112,551	85,939	78,847	86,102	86,700
Portland, Maine	39,994	42,974	40,216	43,509	48,808
Providence	49,568	38,731	41,322	39,541	35,928
St. Albans	49,580	39,099	28,913	34,022	27,319
Baltimore	496,313	500,656	503,445	494,200	486,035
Philadelphia	500,473	500,449	525,247	545,958	522,816
New York	185,181	226,988	296,256	462,477	506,854
Newark	3,154,876	3,194,299	3,150,573	3,226,830	3,304,465
JFK Airport	1,384,536	1,329,737	1,293,669	1,474,054	1,221,749
Charleston	549,792	604,678	575,912	629,969	638,621
Miami	754,570	837,987	919,150	1,063,756	842,181
San Juan	121,066	125,822	115,908	105,467	104,714
St. Thomas	9,404	9,129	10,444	11,883	12,448
Savannah	626,611	640,669	659,185	752,055	817,331
Tampa	354,564	326,666	372,144	403,311	394,045
Wilmington	324,952	322,603	331,555	310,507	282,688
Norfolk	352,811	368,490	382,301	443,377	417,217
NFC Indianapolis/Washington	762,730	509,253	351,186	461,158	731,334
Mobile	54,904	64,367	61,324	92,364	80,691
New Orleans	832,394	834,440	761,820	797,544	764,649
Dallas/Ft. Worth	327,187	301,545	274,542	286,031	286,927
El Paso	103,601	107,708	103,953	75,033	75,844
Houston	448,137	464,907	437,079	472,332	485,334
Laredo	396,701	366,933	356,370	351,374	330,949
Port Arthur	31,700	31,178	28,035	29,097	27,255
Nogales	117,279	109,816	106,129	86,925	97,602
Los Angeles	4,285,908	4,499,699	4,616,494	5,183,813	5,101,101
San Diego	165,473	176,009	191,405	230,064	211,547
Anchorage	104,096	88,297	96,252	107,240	94,434
Honolulu	45,174	38,600	41,923	54,610	45,378
Portland	330,242	310,182	289,660	328,474	350,316
San Francisco	893,218	817,569	820,212	867,415	714,645
Seattle	634,502	642,053	713,242	845,930	799,770
Chicago	1,229,959	1,248,647	1,258,832	1,340,274	1,245,045
Cleveland	1,034,749	1,003,474	990,196	984,020	996,841
Detroit	502,606	438,979	430,802	447,904	388,553
Duluth	1,978	1,322	1,393	1,398	7,366
Milwaukee	48,270	45,794	40,967	36,396	33,894
Minneapolis	106,829	101,115	94,402	99,008	105,582
Pembina	15,440	9,990	10,941	11,497	11,743
St. Louis	228,010	237,332	231,650	257,673	265,855
Great Falls	95,286	90,801	96,049	107,613	106,416
<b>Total Collections</b>	<b>22,592,262</b>	<b>22,417,478</b>	<b>22,385,911</b>	<b>24,357,478</b>	<b>23,783,678</b>
Net Financial Statement Adjustments (a)	6,176	(9,639)	19,889	(9,549)	(30,241)
<b>Total Revenues Collected</b>	<b>\$22,598,438</b>	<b>\$22,407,839</b>	<b>\$22,405,800</b>	<b>\$24,347,929</b>	<b>\$23,753,437</b>

(a) Total collections represent collections recorded by the port locations during the fiscal year. Net financial statement adjustments primarily represent adjustments for timing differences for collections received during the fiscal year but not recorded until the next fiscal year.

*See Accompanying Accountants' Review Report.*



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## **Independent Accountants' Review Report**

Commissioner  
United States Customs Service

Office of Inspector General  
United States Department of the Treasury:

We have reviewed the accompanying balance sheet of the United States Customs Service (Customs) as of September 30, 2001, and the related statements of net cost, changes in net position, budgetary resources, financing, and custodial activity (hereinafter collectively referred to as the "financial statements") for the year then ended. These financial statements and the other data accompanying the financial statements are the responsibility of Customs management.

We conducted our review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A review consists principally of inquiries of Customs personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Our review of the financial statements was performed primarily for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The other data accompanying the financial statements are presented for purposes of additional analysis and have been subjected to the inquiry and analytical procedures applied in the review of the financial statements. We are not aware of any material modifications that should be made to such data.

The financial statements as of and for the year ended September 30, 2000 were audited by other accountants, whose report thereon, dated January 29, 2001, expressed an unqualified opinion.

**KPMG LLP**

February 15, 2002



KPMG LLP, KPMG LLP a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

## Acronyms

ACE	Automated Commercial Environment	FEHBP	Federal Employees' Health Benefits Program	NCIC	National Criminal Information Center
ACH	Automated Clearinghouse	FERS	Federal Employees' Retirement System	NFC	National Finance Center
ACS	Automated Commercial System	FF	Forfeiture Fund	NICB	National Insurance Crime Bureau
ACSI	Americas-Counter Smuggling Initiative	FFMIA	Federal Financial Management Improvement Act	NII	Non-Intrusive Inspection
AD/CV	Antidumping/Countervailing	FinCEN	Financial Crimes Enforcement Network	NTEP	National Training Evaluation Program
ADP	Automated Data Processing	FIS	Federal Inspection Service	NTP	National Training Plan
AES	Automated Entry System	FLETC	Federal Law Enforcement Training Center	ODTC	Office of Defense Trade Controls
APIS	Advance Passenger Information System	FMFIA	Federal Managers' Financial Integrity Act	OF	Office of Finance
ATD	Applied Technology Division	FY	Fiscal Year	OIG	Office of Inspector General
ATS	Automated Targeting System	GAAP	Generally Accepted Accounting Principles	OIT	Office of Information Technology
ATS-P	Automated Targeting System – Passenger	GAO	General Accounting Office	OMB	Office of Management and Budget
BASC	Business Anti-Smuggling Coalition	GMRA	Government Management Reform Act	ONDCP	Office of National Drug Control Policy
BMPE	Black Market Peso Exchange	GS	General Schedule (Pay Scale)	OPEB	Other Post-Employment Benefits
BSA	Bank Secrecy Act	GSA	General Services Administration	OPM	Office of Personnel Management
CAFC	Court of Appeals for the Federal Circuit	HRM	Human Resources Management	ORB	Other Retirement Benefits
CAPPS	Customs Automated Port Profile System	IACET	International Association for Continuing Education and Training	OTD	Office of Training and Development
CBT	Computer Based Training	IAFIS	Integrated Automated Fingerprint Identification System	PTDP	Professional Trainer Development Program
CEU	Continuing Education Units	ICCS	International Crime Control Strategy	PFI	Primary Focus Industry
CFO	Chief Financial Officer	ICDE	Interagency Crime and Drug Enforcement	RAIC	Resident Agent in Charge
CIP	Carrier Initiative Program	INS	Immigration and Naturalization Service	S&E	Salaries and Expenses
CLI	Customs Leadership Institute	IPR	Intellectual Property Rights	SAP R/3	Integrated Financial Systems Software
CMC	Customs Management Center	IRMCO	Interagency Resources Management Conference	SAIC	Special Agent-In-Charge
CMM	Capability Maturity Model	IRS	Internal Revenue Service	SBA	Shared Border Accord
CMO	Customs Modernization Office	ISSB	Information Systems Security Branch	SCF	Standard Curriculum Frameworks
CMP	Compliance Measurement Programs	ITAR	International Traffic in Arms Regulations	SEACATS	Seized Asset and Case Tracking System
COBRA	Consolidated Omnibus Reconciliation Act	JFK	John Fitzgerald Kennedy	SED	Shipper's Export Declaration
COMPEX	Compliance Measurement Examination	JTTF	Joint Terrorism Task Force	SENTRI	Secure Electronic Network for Travelers Rapid Inspection
COTS	Commercial Off-the-Shelf	K-9	Canine (dog)	SF	Standard Form (Example: SF-50)
CRF	Commercial Recovery Facility	LAT	Local Assistance Training	SFFAS	Statement of Federal Financial Accounting Standard
CSRS	Civil Service Retirement System	LEO	Law Enforcement Officer	STC	Strategic Trade Center
CTP	Customs Tuition Program	LPR	License Plate Reader	STL	State and Local
DOD	Department of Defense	MDMA	3,4-Methylenedioxymethamphetamine	TECS	Treasury Enforcement Communications System
DSO	Drug Smuggling Organization	MEO	Marine Enforcement Officer	TPVT	Textile Production Verification Team
EastPac	Eastern Pacific Ocean	MSPB	Merit Systems Protection Board	Treasury	Department of the Treasury
eCP	Electronic (e) Customs Partnership	MTD	Major Transactional Discrepancies	U.S.	United States
ECS	Express Consignment Service	NAFTA	North American Free Trade Agreement	U.S.C.	United States Code
EEO	Equal Employment Opportunity	NCAP	National Customs Automated Prototype	USDA	United States Department of Agriculture
EFT	Electronic Funds Transfer			USPS	United States Postal Service
FAA	Federal Aviation Administration			VACIS	Vehicle and Cargo Inspection System
FASAB	Federal Accounting Standards Advisory Board			VIN	Vehicle Identification Number
FBI	Federal Bureau of Investigations			VIS	Vehicle Identification Specialist
FECAI	Federal Employees' Compensation Act			WMD	Weapons of Mass Destruction
FEGLI	Federal Employees' Group Life Insurance			WTC	World Trade Center



## **U.S. Customs Service**

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